第一拖拉机股份有限公司

FIRST TRACTOR COMPANY LIMITED

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

(Stock code : 0038)

Annual Report 2006

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Tractor

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CORPORATE INFORMATION

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REGISTERED ADDRESS

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BUSINESS REGISTRATION NUMBER

QGYZZ 003242

LEGAL REPRESENTATIVE OF THE COMPANY

Liu Dagong

COMPANY SECRETARY AND HEAD OF INVESTOR RELATIONS DEPARTMENT

Yu Lina

AUTHORISED REPRESENTATIVES

Liu Wenying
Yu Lina

PRINCIPAL BANKERS

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

INTERNATIONAL AUDITORS

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Stock Code: 0038

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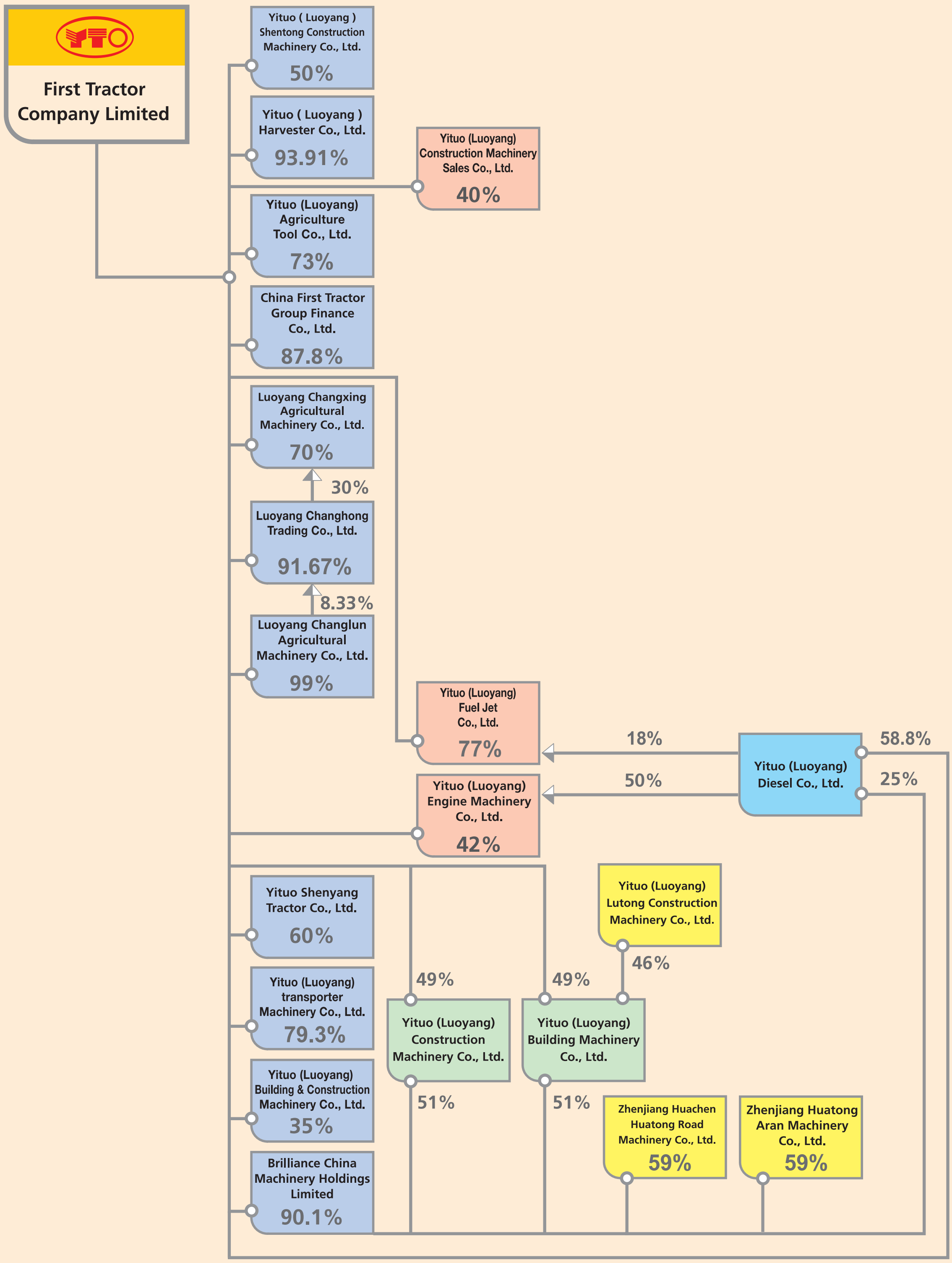
FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
REVENUE	**6,101,451**	4,765,828
Finance costs	**(16,593)**	(11,186)
Share of profits and losses of associates	**1,827**	(6,955)
PROFIT/(LOSS) BEFORE TAX	**87,467**	(77,482)
Tax	**(15,251)**	17,183
PROFIT/(LOSS) FOR THE YEAR	**72,216**	(60,299)
Attributable to:		
Equity holders of the parent	**72,849**	(50,436)
Minority interests	**(633)**	(9,863)
	72,216	(60,299)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – Basic	**RMB9.28 cents**	RMB(6.42) cents

CORPORATE STRUCTURE



CHAIRMAN'S STATEMENT

To shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of First Tractor Company Limited ("First Tractor" or the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (collectively the "Group") to shareholders (the "Shareholders") of the Company for the year ended 31 December 2006 (the "Reporting Period").

During the Reporting Period, the Group recorded a turnover of RMB6,101,451,000, representing an increase of 28% over the same period last year. Earnings attributable to ordinary equity holders of the parent was RMB72,849,000, representing an increase of RMB123,285,000 over the same period last year. Earnings per share was 9.28 cents, representing an increase of 15.70 cents over the same period last year.

BUSINESS REVIEW

During the Reporting Period, the agricultural machinery market experienced booming demands due to the farmers' strengthened purchasing power along with the increased income, as driven by the State's policies including the exemption of agricultural taxation and the granting of subsidies for the purchase of agricultural machinery and to grain-growers. Meanwhile, the farmers have greater incentive to purchase agricultural machinery with the improved systematisation of agricultural machinery services as a result of the farmers' euthusiasm in using agricultural machinery to ameliorate the agricultural operation environment. As a result, the demand of agricultural machinery was increased. The Group grasped such opportunities to strengthen technologies for the agricultural machinery business and speeded up adjustment to product mix. During the Reporting Period, the Group invested RMB50,790,000 in research and development of agricultural machinery with 48 projects completed, of which 17 projects were put into production in scale. The Group's production capacity and product quality were essentially improved. During the Reporting Period, the Group sold 154,000 units of agricultural machinery products with turnover amounting to RMB4,699,191,000, representing a year-on-year increase of 25.26%. Among them, sales of large/medium wheeled tractors were 42,166 units, rising by 68.86% over last year.

During the Reporting Period, as driven by the rapid increase in investments in fixed assets in society and the extensive rise in export of construction machinery products, there was an overall recovery in the construction machinery industry. As such, having analysed the market opportunities and the problems in its construction machinery business, the Group took a series of measures including enhancement of internal management, consolidation of internal marketing resources and increase in development of new products, thereby improving the economic operation of such segment. During the Reporting Period, 9,403 units of construction machinery products of various types were sold with turnover amounting to RMB1,198,603,000 in 2006, representing a year-on-year increase of 18.22%. Albeit the loss has been decreased noticeably, the operational result was not satisfactory.

On 28 July 2006, the Group completed assets swap with China Yituo Group Corporation Limited ("China Yituo"), a holding company of the Company, by acquisition of the equity interests in the engine machinery business of China Yituo and disposal of casting factories interests to China Yituo, so as to accomplish vertical integration and improve quality of assets and the Company's profitability. The engine machinery business provided a new scope of development of the Group. For the period from 1 August 2006 to 31 December 2006, the engine machinery business achieved a turnover of RMB203,614,000.

During the Reporting Period, the Group maintained a stable increase in its financial business, which has provided an effective support on the Group's internal financial resources management and production operation, and has a positive effect on the profitability of the Group.

During the Reporting Period, apart from its efforts in strengthening its status in the local market, the Group strengthened its expansion to the international markets in order to develop an international marketing network and system for a shift from the passive sale to the active marketing. As a consequence of the intensified product export pattern focusing on agricultural machinery and construction machinery, the altered export modes, the optimised export product mix and timely adjusted international marketing modes, sales volume of the Group's products were substantially increased in the international markets. Particularly, the Group exported 1,211 large and medium wheeled tractors to Kyrgyzstan in one lot, setting a new record in terms of the export volume of a single order for the domestic tractor business. With 3,175 and 368 units of agricultural machinery of various types and construction machinery exported respectively during the Reporting Period, the Group recorded an aggregate turnover of US$42,141,500 from export business in 2006, representing a rise of 76.10% from the same period last year.

CORPORATE GOVERNANCE

During the Reporting Period, the Company has enhanced and improved its corporate governance, implemented its duties to the Directors, proposed new requirements to the Company's operation and internal control. The Group improved its regulations and rules on the internal control system and evaluated and reviewed the operation effectiveness thereof. To enhance the management on the Company's subsidiaries, the Group formulated "Opinions on Standardising Subsidiaries' Corporation Governance Structure", thus ensuring the standard operation and proper decisions of the subsidiaries of the Company. During the Reporting Period, the Group did not have any significant risk or loss.

BUSINESS OUTLOOK

As a large agricultural country, China's agricultural mechanisation and modernization strategically guarantee the national food supply. Therefore, the Governement, by adopting a series of policies of supporting agriculatural sector, building new countryside and accelerating agricultural mechanisation, has increased investment in agricultural sector and raised the income of farmers. Given the State's "three policies for agriculture" and structural change in domestic economy, rural lands are in the process of transition to intensive operation at a faster pace. All the factors above brought huge opportunities for the rapid and stable development of agricultural machinery. China is currrently at an early stage of agricultural mechanisation and is progressing into a middle stage. In order to meet the needs arising from agricultural mechanisation, the Group will accelerate technological innovation and structural adjustment of agricultural machinery. The Company also strives to explore international markets for more developmental opportunities. In the meantime, the Government put efforts on infrastructure construction and road construction in rural areas during the period of "Eleventh Five-Year Plan", which have created opportunities for machinery and small construction machinery of the Group. Following rising environmentally-technological requirement for engine machinery imposed by the Government, the engine machinery business of the Group will face new developmental opportunities.

Looking ahead, following the development trend of China's agricultural mechanisation, the Group will stick to the philosophy of "creating value for shareholders and users" to secure the continuous and stable growth in the results and requite shareholders by launching various agricultural mechanical products that address the domestic agricultural mechanisation and the demands from international markets, and pressing ahead adjustments to industrial structure and product mix as well as consolidation of resources and business based on independent innovation, introduction and absorption.

Sustaining the fast growth of agricultural machinery business: In 2007, the Group will put more efforts in research and development of technology as well as research on market segment for large/medium wheeled tractors. By upgrading products with increased adaptability, broadening and deepening the product lines and highlighting branding operation to exert brand advantages, the Group aims to strengthen its prime position in the industry.

Crawler tractor: the Group will upgrade the market structure and product mix to further improve existing products, as to meet customers' needs.

Large/medium wheeled tractors: capturing the market capacity for large/medium wheeled tractors resulting from the expedited development of new countryside, the Group wishes to expand continuously on the fast growth of large/medium wheeled tractors, to maintain its leading status in the industry and to participate in international competition through development of new products and market exploration.

Small wheeled tractors: along with the rising demands for large/medium wheeled tractors in the tractor market, the traditional small wheeled tractors market is expected to further shrink. In order to improve its competitiveness and profitability, the Company will alter its structure upgrade its products, develop modified product varieties and to strengthen its cost control.

Harvesters and agricultural machinery: the Group will upgrade the sales network and improve services for wheat harvesters based on its well-developed product techniques. Meanwhile, it will accelerate development of rice and corn harvesters as well as the large-feeding wheat and rice harvesters with enhanced adaptability and reliability in order to enhance its status in the industry.

Improving the operation of construction machinery business: In 2007, while capturing the time and opportunities of constructing new countryside by the Government, the Group provides new equipments that meet the needs of construction of new countryside. The Group also consolidated and improved the competitiveness of road machinery and small construction machinery products, through acceleration of product mix adjustment and establishment of new sales system and upgrade of technology for products, and raise its operation capability. The Group will undergo business and assets reorganisation in respect of loss-making products and businesses, by introducing strategic partners and system reform, and raise asset quality and profitability.

Consolidating the leading position of non-road engine machinery: The Group will speed up co-operation with international research institutes and promote upgrade of engine machinery products for higher better functions, higher economic efficiency and lower gas emission. While accommodating the needs of main products such as high horsepower tractors and consolidating the leading position of engine machinery business in ancillary agricultural machinery market in the PRC, the Group will accelerate the research and development of heavy power duty diesel machine so as to explore the market of business vehicles.

Utilising on financial rescources: In 2007, the Group will utilise the financial resources of China First Tractor Group Finance Co., Ltd.. On one hand, the Group will seek to explore businesses of buyer credit and credit lease for the products of the Group, which provides strong support to its business development. On the other hand, the Group, through cooperation with other financial institutions, will broaden its business scope and improve its performance.

International market and international cooperation

In addition to enhancing its export of large wheeled tractors, the Group will focus on the expansion of international market for medium wheeled tractors and road roller. The Group will speed up the construction of international marketing network and channels in order to improve its capability to explore international market. The Group will also actively advance its joint venture with internationally renowned corporations while continuously deepening and broadening the cooperation in terms of products, technology and capital and to enhance the Group's competitiveness and its influence internationally.

ACKNOWLEDGEMENT

I hereby wish to thank all Directors and staff of the Group for their dedications to the Group's growth in the previous year. On behalf of the Board, I would also like to express my sincere gratitude to all Shareholders, all walks of life and friends for their support and care for the Group's growth, give heartfelt thanks to all dedicated employees of the Group.

By order of the Board
Liu Dagong
Chairman

Luoyang, the PRC
20 April 2007

During the Reporting Period, by the implementation of various measures including adjustment of industry structure and product mix, product research and development, enhancement of financial and marketing management, expansion of export trade channels, the Group experienced an inprovement in business operation and a rising momentum in operating results during the Reporting Period.

ANALYSIS OF OPERATION

During the Reporting Period, the Group recorded a turnover of RMB6,101,451,000, representing an increase of 28.02% over the same period of last year, of which, turnover of agricultural machinery and construction machinery recorded year-on-year increase of 25.26% and 18.22%, respectively. engine machinery contributed RMB203,614,000 to the turnover of the Group.

Table of turnover and segment results of the Group during the Reporting Period

	Analysis of turnover			Analysis of segment results		
By business	**2006**	2005	% of change	**2006**	2005	change as compared with the same period last year
	RMB'000	*RMB'000*	%	***RMB'000***	*RMB'000*	*RMB '000*
Agricultural machinery	**4,699,191**	3,751,521	25.26	**148,020**	23,254	124,766
Construction machinery	**1,198,603**	1,013,898	18.22	**(72,642)**	(122,768)	50,126
Engine machinery	**203,614**	—	N/A	**(1,179)**	—	(1,179)
Financial	**—**	—	—	**35,112**	33,477	1,635
Others	**43**	409	(89.49)	**(4,609)**	(3,015)	(1,594)
Total	**6,101,451**	4,765,828	28.02	**104,702**	(69,052)	173,754
Less: not deducted expenses	**—**	—	—	**(17,235)**	(8,430)	(8,805)
Profit (loss) before tax	**—**	—	—	**87,467**	(77,482)	164,949

During the Reporting Period, the Group's turnover was mainly attributable to agricultural machinery business, which accounted for 77.02% of the turnover. Construction machinery business accounted for 19.64% of the turnover and engine machinery only accounted for 3.34% of the turnover.

During the Reporting Period, the Group's profit mainly generated from agricultural machinery business and financial business. Operating results of agricultural machinery business increased by RMB124,766,000 as compared with the same period last year while the operating results of financial business increased by RMB1,635,000 as compared with the same period last year. Although construction machinery business did not turn loss into profit, the loss decreased by RMB50,126,000 when compared with the same period last year as the Group purchased the engine machinery business at fair value price by reference to price to earning ratio and price to book value ratio, and the difference of purchased price in excess of its book value will be eliminated gradually in the cost. Therefore, the engine machinery business did not contribute any profit to the Group from August 2006 to December 2006.

During the Reporting Period, the Group adopted a series of measures in exploring international markets, which included active participation in international fair, adjustment to exported product mix in line with international market demand after studying the market, establishment of international sales networks, upgrade of service awareness and quality to ensure timely delivery of after-sale services. In order to facilitate the development of international markets, the Group enhanced communication with overseas dealers by hosting promotion events for exported products and international business conferences so as to increase overseas dearers' confidence in the Group. During the Reporting Period, export sales of the Group amounted to US$42,141,500, representing an increase of 76.10% over the same period of last year, of which export sales of agricultural machinery and construction machinery amounting to US$24,542,100 and US$17,599,400, representing increase of 49.32% and 134.79%, respectively, over the corresponding period last year.

Analysis of agricultural machinery business

During the Reporting Period, except for a slide in sales of small wheeled tractors, the Group's agricultural machinery products all recorded growth in their respective sales. The growth of the sales, has a led to a growth in the financial result of the agricultural machinery business. During the Reporting Period, the sales of agricultural machinery and its segment results are set out in the table as follows:

Table of sales volume of agricultural machinery products of the Group during the Reporting Period:

Analysis of sales volume	**2006**	2005	% of change
Crawler tractors (unit)	**3,511**	3,418	2.72
Large/medium wheeled tractors (unit)	**42,166**	24,970	68.87
Small wheeled tractors (unit)	**98,674**	131,200	(24.79)
Harvesting machinery (unit)	**2,970**	2,319	28.07
Agricultural machinery (set/unit)	**7,049**	4,146	70.02
Total units of agricultural machinery (unit/set)	**154,370**	166,053	(7.04)

In addition to the increased turnover of agricultural machinery benefiting from market opportunities arising from the State's policies in supporting the agricultural sector, the Group's continued efforts on adjustment to product mix also achieved significant results. Technological renovation and production expansion of high and medium horsepower crawler tractors and harvesters guarantee production and quality. Meanwhile, capitalising on its extensive sales networks and adopting flexible marketing strategies, the Group has expanded its market share and improved after sales services by strengthening sales management and improving its service standard.

An economy of scale was achieved following a significant rise of sales of agricultural machinery. By taking a series of measures such as strategic merchandising and commencement of valuable projects, the Group successfully lowered the production costs and raised gross profit margin of products. During the Reporting Period, the average consolidated profit margin of tractor products increased 2.3% year-on-year to approximately 10.36%. By improving the percentage of self-produced key spare parts of harvesters, unit variable cost fell by RMB532 and the quality and functions of harvesters were also improved.

Due to the charge of the market stature of tractor market, the overall market of small wheeled tractors shrunk, leading to a slide in sales of small wheeled tractors of the Group by 24.79%. However, the fast-growing large/ medium wheeled tractors business in turn contributed to the better performance of overall turnover and operating results of agricultural machinery.

Analysis of construction machinery business

Table of sales volume of construction machinery products of the Group during the Reporting Period

Analysis of sales volume	**2006**	2005	% of change
Road machinery (unit)	**2,673**	2,365	13.02
Scraper (unit)	**1,503**	1,365	10.11
Transportation machinery (unit)	**183**	—	N/A
Small construction machinery (unit)	**5,256**	5,456	(3.67)
Total units of construction machinery (unit)	**9,615**	9,186	4.67

(*Note:* Road machinery: road roller, mixing machinery, road pavers, blenders, milling machinery; Scraper: bulldozer, grader, loader, excavator; Transportation machinery: industrial forklift; Small construction machinery: small excavator and small loader)

During the Reporting Period, construction machinery business started to rebound. Given the recovery of the overall industry, the Group has taken a series of measures to address problems such as insufficient adaptability to the market and inadequate marketing strategies, which include enhancing operational ability of the management team, streamlining internal sales network, integrating internal sales resources, increasing investment in research and development of new products in construction machinery business, timely adjusting product mix in response to the market demand. Construction machinery business of the Group is gradually moving out of its bottom which consolidated profit amounted to 7.61%, representing an increase of 2 percentage point, it takes time for the Group to recover and reach its best result of the past. During the Reporting Period, the construction machinery business was still at a loss.

Engine machinery business analysis

Engine machinery business was injected in the Group on 28 July 2006 as a result of assets swap and business reorganization, which offered a strong support to the agricultural machinery business and ancillary support for some of the construction machinery. During the Reporting Period, the consolidated profit for engine machinery amounted to 15.4%. From August to December 2006, the engine machinery business did not contribute any profit to the Group. However, the Group believes that the engine machinery business will become a future new profit driver of the Group.

Analysis on period expenses during the Reporting Period

By business	31 December 2006 *RMB'000*	31 December 2005 *RMB'000*	Difference *RMB'000*	% of Change
Selling and distribution costs	**229,618**	172,021	57,597	33.48
Administrative expenses	**338,610**	262,482	76,128	29.00
Other operating expenses, net	**28,613**	86,126	(57,513)	(66.78)
Finance costs	**16,593**	11,186	5,407	48.34
Total	**613,434**	531,815	81,619	15.35

Analysis of selling and distribution costs: The group's selling costs increased by 33.48% from the previous year, which is attributable to: 1. an increase of selling costs of RMB18,500,000 as a result of the inclusion of engine machinery business; 2. an increase of transportation costs of RMB26,472,000 arising from the increase of sales of agricultural machinery business and construction machinery business of the Group; 3. a reduction of selling costs of RMB13,000,000, due to change of the charging sales discount in the construction machinery business of the group. Taking into account the aforesaid factors, selling costs of the Group increased by 14.89% when compared with the same period of last year.

Analysis of administrative expenses: The Group's administrative expenses increased by 29% from the previous year, which is attributable to: 1. an increased investment in research and development of the Group's products in 2006, leading to an increase of administrative expenses of RMB37,911,000 in research and development and technology services expenses; 2. the inclusion of engine machinery business gave rise to the increase of administrative expenses of RMB29,174,000; 3. assets and business reorganization led to an increase of administrative expenses of RMB10,000,000 in agency charges.

Other operating expenses, net: Other operating expenses primarily include provisions for impairment, loss from exchange difference, interest expenses for financial institutions and welfare expenses for early retired employees, etc. During the Reporting Period, the Group's other operating expenses decreased by 66.78%, it is attributable to: 1. some of the Group's construction-in-progress experienced favourable changes in their operations during the Reporting Period and provision for impairment on construction-in-progress decreased by RMB12,325,000 over the previous year; 2. during the Reporting Period, the Group strengthened the collection of receivables which improved the condition of receivables and thus provision for receivables decreased by approximately RMB17,203,000 over the previous year; 3. During the Reporting Period, no substantial change in the number of early retired employees, the welfare expenses for early retired employees was at its first time made in 2005, hence the provision decreased by RMB30,914,000 from the corresponding period of last year.

Analysis of Change in Current Assets

	31 December 2006 *RMB'000*	31 December 2005 *RMB'000*	Difference *RMB'000*	% of Change
Cash and cash equivalents	**765,904**	542,429	223,475	41%
Pledged deposits	**122,440**	121,124	1,316	1%
Trade and bills receivable	**744,774**	448,641	296,133	66%
Inventories	**852,366**	755,227	97,139	13%

Cash & bank deposits: As at 31 December 2006, the Group's current cash and bank deposit amounted to RMB765,904,000, of which the Company owns as to RMB290,369,000 and the remaining cash and bank deposit are attributable to the subsidiaries.

Pledged deposits: Pledged deposits is a mean of financing to double the banking facilities. As at 31 December 2006, the Group's pledged deposit is basically the same as the previous year.

Trade and bills receivable analysis: The Group's trade receivable increased by 66%, primarily attributable to: 1. trade receivable of agricultural machinery business increased by approximately RMB30,000,000, mainly because the regional government subsidy for purchasing machineries was not fully used by the end of the year and such receivable was collected up to date; 2. bills receivable of agricultural machinery business increased by approximately RMB97,000,000 and the Group's bills receivable are all in bank acceptance; 3. the inclusion of engine machinery business led to an increase of trade receivables of approximately RMB104,000,000, while bills receivable increased by approximately RMB64,000,000. During the Reporting Period, the Group adopted different approaches to strengthen the management of the trade receivable, including the establishment of order credit management system, application of different credit sales policies to different clients according to their credit ratings so as to lower the risk of trade receivable. "Life-long" accountability is implemented for the inter-segment sales from sales of goods to receivable collection and goods collection are linked to the interest of person-in-charge, and legal actions were taken to enhance the collection of long-term arrears. The term of the trade receivable was improved.

Change in inventory: During the Reporting Period, the Group's inventories increased by 13%, mainly attributable to: 1. the inclusion of engine machinery business led to an increase in inventories of approximately RMB75,000,000, 2. as to neutralise the effect on the increase in the price surge in raw materials, the Group increased its inventories of raw materials by approximately RMB20,000,000 by the end of the year 2006.

The Group's Operating Strategies in 2007

Grasping the opportunities arising from the State's macro-policies, the Group will strengthen every aspect of the operation in deploying a comprehensive management strategy, to improve the cutting-edge of the Group and meet the Board's strategic requirements on the Group's future development.

Reinforcing supply chain management and enhancing merchandising management: The Group will continue to advance and strengthen the centralised merchandising system to further strengthen the management system and internal control. Meanwhile, the Group will strengthen the supply channel to enjoy the benefit of mass merchandising and lower the merchanrdising costs.

Finance management: The Group will strengthen cost management and improve its supply chain to conduct key monitoring in planning, merchandising and cost of sales. It will also put more efforts in the recovery of receivables and promoting utilization efficiency of capital. It plans to adjust national stock to reduce use of capital. The Group will strongly promote the internal assessment system in which return on assets is the core criteria and cash flows is a constraint factor, and strengthen the management of subsidiaries.

Marketing and sales management: The Group will enhance regional market consolidation to reduce marketing expenses and implement a new marketing model that integrates sales of major machinery, provision of spare parts, after-sales services and feedback. By adhering to the marketing philosophy of "services promote sales", a sound file management system of dealers and customers was built to regulate the order of inter-group sales. The Group will also formulate a more personalised mechanism in sales assessment, for the purposes to encourage marketing staff to be more procative to initiate the activeness of sales force, improve the after-sale service standard and raise their service awareness.

Financial business: the Group will make full use of its edges in internal financing resources and centralized financial management and clearing platform. With the mission as "serving the Group where its foothold set", the Group will strengthen research of the capital market and devise a target-based financing scheme based on the Group's production and operation to progressively develop new business in providing buyer's facilities, the Group will further expand itself towards external markets to enhance its sustainability and expansion.

International market: The Group will improve the product mix of its export products and progressively promote and obtain accreditation of its 16 products' from E-mark, CE, EPA, OECD, with a view to laying a solid foundation for expanding to the international market. Apart from that, the Group will set up a unified technical service standard for its export products, establish management system for overseas technical service engineers, improve file management system for export product and international customers, reinforce training for international technical service team, gather talents who possess skills in overseas technical services. Based on the market conditions and the business development situation, the Group will optimise distribution networks and speed up establishment of international marketing outlets by developing export products that meet the requirement of international market.

Investments

For the period from 31 January 2006 to 31 July 2006, Yituo (Luoyang) Diesel Company Limited, an associate of the Company, gained profit for the Company.

Other associates of the Company, namely Yituo (Luoyang) Casting and Forging Company Limited and Luoyang First Motors Company Limited are still making a loss.

ANALYSIS OF ASSETS AND FINANCIAL POSITION OF THE GROUP

Financial Statistics

Items	Basis of calculation	31 December 2006	31 December 2005
Gearing ratio	Total liabilities/total assets x 100%	**52.56%**	43.02%
Current ratio	Current assets/current liabilities	**1.34**	1.52
Quick ratio	(Current assets - inventories)/current liabilities	**0.98**	1.06
Debt equity ratio	Total liabilities/Shareholders' equity (note) x 100%	**119.34%**	80.96%

Note: Shareholders' equity (excluding minority interests)

Analysis of Equity and Reserves

Items	31 December 2006 *RMB'000*	31 December 2005 *RMB'000*	Increase/ (decrease) *RMB'000*
Share capital	**785,000**	785,000	—
Share premium account	**1,378,840**	1,378,840	—
Statutory surplus reserve	**77,570**	68,817	8,753
Statutory public welfare fund	—	64,744	(64,744)
Reserve fund	**2,873**	2,525	348
Enterprise expansion fund	**2,356**	2,153	203
General and statutory reserve	**4,446**	2,217	2,229
General surplus reserve	**64,744**	—	64,744
Available-for-sale investment revaluation reserve	**97,150**	—	97,150
Exchange fluctuation reserve	**(4,244)**	(1,357)	(2,887)
Retained profit/(Accumulated losses)	**(210,704)**	(272,020)	61,316

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

In 2007, the Company intends to make an additional investment of approximately RMB31,720,000 in Yituo (Luoyang) Transportation Machinery Company Limited ("YLTM") (一拖(洛陽)搬運機械有限公司), and the Company's equity interest in YLTM will represent 91.052% upon investment. Apart from this, the Group does not have any plan for significant investment and capital acquisition in 2007. There was no significant investment in 2006.

EXCHANGE RATE RISK

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 and dividends to holders of H Shares. The Group's cash balances are usually deposited with financial institutions in the form of short-term deposits. Bank loans were borrowed in Renminbi and such loans can be repaid out of the revenue received in Renminbi.

As at 31 December 2006, there was no pledge of any deposit of foreign currency of the Group.

PLEDGE OF ASSETS

At 31 December 2006, certain of the Group's buildings and machinery with an aggregate net carrying value of approximately RMB91,009,000 (2005: RMB18,806,000) were pledged to secure certain short term bank loans granted to the Group.

At 31 December 2006, certain of the Group's prepaid land premiums with an aggregate net carrying value of approximately RMB8,304,000 (2005: Nil) were pledged to secure bank loans granted to the Group.

At 31 December 2006, certain of the Group's and the Company's bills receivable of RMB75,282,000 (2005: RMB7,400,000) were pledged for the issuance of bills payable.

NUMBER OF STAFF OF THE COMPANY AND TRAINING FOR STAFF

As at 31 December 2006, the Company had a total of 8,591 staff members, of whom 4,233 were production staff, 430 were engineering technicians, 125 were financial staff, 617 were sales staff, 561 were administrative staff, and 2,625 were marketing and other staff.

In 2006, the Company organised staff training in a number of ways with practical measures for effectiveness. Altogether 13,664 staff members in different areas were trained through a total of 940 training courses during the Reporting Period so that the professional quality of the staff was raised.

REMUNERATION POLICY FOR STAFF OF THE COMPANY

The Company implemented a basic salary system based on "the remuneration in accordinance with position" and with reference to the market labour price. It has established a rational and standard remuneration system in line with the work nature of employees in different areas and altered the allocation structure and relationships to fully arouse the enthusiasm and creativity in the staff to support the Company's strategic goals.

In addition to the basic salary system, the Company, with the human resource needs given from corporate development strategy as guidance and focusing on calibre and performance, has opened up channels for staff's growth by outlining promotion prospects given different posts and areas. As such, employees in different areas are able to define their individual goals and directions within the Company and find a platform to bring their talent into full play.

CONTINGENT LIABILITIES

As at 31 December 2006, China First Tractor Group Finance Company Limited ("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 2006, 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 2006 is set out in note 39 to the financial statements of this annual report.

EXECUTIVE DIRECTORS

Mr. Liu Dagong, aged 52, joined China First Tractor Group *(Note)* in 1975 where he served as a researcher, supervisor and deputy general manager and general manager. He joined the Company in 1997 and is currently chairman of China Yituo, chairman of the Company, deputy governor of China Corporate Management Association of the Machinery Industry. Mr. Liu has substantial experience in corporate management, strategic planning, production and operation. He graduated from Zheng Zhou University in 1985 and then graduated from the postgraduate course on economic management in Henan Province Party College.

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

Mr. Zhao Yanshui, aged 43, joined China First Tractor Group in 1983. Mr. Zhao was previously the section head, deputy factory manager, deputy chief engineer, deputy general manager of China First Tractor Group and executive deputy general manager of the Company. He joined the Company in 1997 and is currently general manager of China Yituo, director of the Company, deputy governor of Association of Construction Engineering Industry of China and deputy governor of Association of Agricultural Machinery. Mr. Zhao has extensive experience in product development, product design and technical management. He studied at the Agricultural Machinery Department of Technical Institute of Jiangsu and was a postgraduate of the Technical Institute of Jiangsu. He was awarded the bachelor's and master's degrees in engineering. He holds the title of Senior Engineer.

Mr. Liu Wenying, aged 57, joined China First Tractor Group in 1975 where he had been the deputy section chief, section chief, assistant to department head, deputy department head, head of Accounting Division, vice chief economist, and deputy general manager. Mr. Liu joined the Company in 2000 and is currently vice chairman of China Yituo and Director of the Company. He has engaged in financial and economic management for long time with extensive experience in corporate financial operations and organisation management. Mr. Liu graduated from the postgraduate program in economic management at Henan Administrative College and the postgraduate program in management science and engineering at Dalian Polytechnic University. Mr. Liu holds the title of Senior Accountant.

Mr. Yan Linjiao, aged 51, joined China First Tractor Group in 1982. He had been the deputy workshop director, section chief, assistant chief engineer and deputy general manger of Yituo (Luoyang) Diesel Company Limited and assistant chief engineer and deputy general manager of China Yituo. Mr. Yan joined the Company in 2004 and is currently the general manager and Director of the Company. Mr. Yan is familiar with design and manufacture of machinery with substantial experience in corporate management, production and operation. He studied at Luoyang Industry College and Xi'an Jiaotong University where he was awarded a bachelor's degree and a master's degree in engineering respectively. He holds the title of Senior Engineer.

Mr. Li Tengjiao, aged 50, was previously deputy head of Luoyang Tractor Research Institute. He joined China First Tractor Group in 1995 where he held the positions of deputy director of Technology Centre, assisstant chief engineer, head of Planning and Development Department and deputy general manager. He joined the Company in 2000 as a director and is currently a director of China Yituo and a director of the Company. Mr. Li has extensive experience in design of machinery and technical management. He graduated from Jilin Industrial University with a bachelor's degree in 1982. Mr. Li holds the title of Senior Engineer.

Mr. Shao Haichen, aged 51, joined China First Tractor Group in 1977. He had been the technician, section chief, deputy factory manager, factory manager and deputy general manager of China First Tractor Group as well as assistant to general manager, deputy general manger and general manager of the Company. He joined the Company in 1998 and is currently a director of China Yituo and a director of the Company. 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 and later was awarded a master's degree from Jiangsu University in 2003. He holds the title of Senior Engineer.

Mr. Zhang Jing, aged 51, joined China First Tractor Group in 1975 where he was the section chief of costs in Finance Department and deputy head of Collective Economic Management Office. He joined the Company in 1997 and is currently a director and the financial controller of the Company. Mr. Zhang has extensive experience in corporate financial management, economic and capital operations. Mr. Zhang graduated from Henan Television Broadcast University in 1985 and later from Class of Postgraduate of Jiangsu Polytechnic University. He holds the title of Senior Accountant.

Mr. Li Youji, aged 43, joined China First Tractor Group in 1983. Mr. Li once served as a designer in Technical Centre and deputy workshop director of China First Tractor Group, as well as assistant to general manger, deputy general manager and general manager of First Tractor International Economic Trade Limited. He joined the Company in 2004 and is currently the deputy general manager of China Yituo and a director of the Company. Mr. Li has extensive experience in marketing 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's and master's degrees in engineering respectively. He holds the title of Senior Engineer. Mr. Li is a visiting scholar at City University, London, United Kingdom.

Mr. Liu Shuangcheng, aged 50, joined China First Tractor Group in 1975 and was the committee member, workshop director, deputy factory manager and factory manager of the Company's casting plant, factory manager of the Company's No.1 Iron Casting Factory and general manager of Yituo (Luoyang) Construction Machinery Company Limited. He joined the Company in 1997 and is currently the head of the Economic Operation Department and a director of the Company. Mr. Liu graduated from Central Party College and majored in economic management. He has substantial experience in corporate management, production and operation.

Mr. Zhao Fei, aged 43, joined China First Tractor Group in 1982. Previously, Mr. Zhao was the section chief, deputy factory manager and factory manager of the Casting Plant of the Company, head of the Production Department of the Company as well as head of the Production Department of China Yituo. He joined the Company in 2004 and is currently the general manager of Yituo (Luoyang) Building Machinery Company Limited and a director of the Company. Mr. Zhao has extensive experience in corporate management, production and operation. He majored in forging technology and equipment at Chongqing University and engineering management at Jiangsu University, where he obtained his bachelor's degree in engineering and master's degree in engineering management respectively. He holds the title of Senior Engineer.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lu Zhongmin, aged 74, is an independent non-executive director and a member of the 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 also chairman of China Association of Agricultural Machinery Manufacturers, a technical consultant of the Asia-Pacific Regional Network of Agricultural Machinery to the United Nations, a part-time professor at Jilin University and Jiangsu University. Mr. Lu graduated from Harrkov Institute of Technology with a bachelor's degree in 1959. He holds the title of Senior Engineer.

Mr. Chan Sau Shan, Gary, aged 53, is an independent non-executive director and a member of the Audit Committee of the Company. He was a director and the 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 vice chief executive of Industrial and Commercial East Asia Finance Holdings Ltd., a subsidiary of China Construction Bank, being in charge of listing, acquisitions and mergers. Mr. Chan has 26 years of experience in banking and corporate finance. Mr. Chan received his master's degree in business administration from the University of Windsor, Ontario, and the bachelor's degree in arts from the University of Western Ontario and attended the Financial Management Program of Stanford University, USA.

Mr. Chen Zhi, aged 51, 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 of finance management department and deputy head of China Agriculture Mechanisation Research Institute as well as general manager of Beijing Hualian Electromechanical Co., Ltd. He is currently head of China Agriculture Mechanisation Research Institute and secretary to The Party Committee thereof. Mr. Chen has substantial experience in design and manufacture of agricultural machinery, agriculture mechanisation economics and finance, technology and scientific management in agricultural machinery. He graduated from Jilin Industrial University with a Bachelor's degree in 1982 and later in 1991 he enrolled in Milan University, Italy to study agricultural machinery. He obtained a Master's degree of science management and engineering in June 2000 and doctorat in agricultural machinery engineering in June 2004. Mr. Chen holds the title of Researcher and enjoys the "government's special subsidy" granted by the state council.

Mr. Luo Xiwen, aged 62, is an independent non-executive director of the Company. He joined South China Agricultural University in 1979 where he served the positions of Associate Professor, Professor and the head of Faculty of Agricultural Engineering, the head and mentor of doctorate students of Faculty of Engineering Technique, the vice president of South China Agricultural University. Currently Mr. Luo is a professor with South China Agricultural College and is the convenor of Agricultural Engineering Division of Bachelor Committee under the State Council, Deputy governor of Chinese Society of Agricultural Engineers, Deputy governor of Chinese Society for Agricultural Machinery, Deputy governor of the National Advanced Agricultural Education Research Institute, Deputy governor of Guangdong Society for Agricultural Machinery, deputy editor-in-chief of Transactions of the Chinese Society of Agricultural Engineering, editor of Transactions of the Chinese Society for Agricultural Machinery, member of International Society for Terrain-Vehicle System (ISTVS), member of International Soil Tillage Research Organization (ISTRO), member of Asian Association for Agricultural Engineering (AAAE), member of American Society of Agricultural Engineers (ASAE). Mr. Luo graduated from South China Agricultural University in 1982 with a master's degree and holds the title of Professor.

SUPERVISORS

Mr. Zheng Luyu, aged 53, joined China First Tractor Group in October 1989 where he held the posts of officer, assistant to the head and deputy head of Department of Public Security, head of Armed Equipment Division, officer to the Party's General Office and officer to the General Office of China Yituo Group Corporation Limited and assistant to General Manager. Mr. Zheng joined the Company in December 2006 and is currently deputy-secretary to the Party Committee, secretary to the Disciplinary Committee and chairman of the Supervisory Committee of China Yituo and chairman of the Supervisory Committee of the Company. Mr. Zheng has extensive experience in administration and supervision. He holds a title of Senior Political Engineer.

Mr. Kong Lingfu, aged 56, joined China First Tractor Group in 1966 where he served the positions of section chief of the General Office, factory manager of Tongyong Cast Factory, officer to the Party Committee. He joined the Company in July 2006 and is currently the vice chairman of the Labour Union of China Yituo and a supervisor of the Company. Mr. Kong graduated from Central Party College majoring in Economics and Management in 1996 and holds the title of senior political engineer. Mr. Kong has extensive experience in production, operation and management, as well as administration work for labour union.

Mr. Xu Weilin, aged 44, joined China First Tractor Group in 1982. He was once deputy head and head of the Auditing Department, and manager of the Procurement Centre of China First Tractor Group. He joined the Company in 2000 and is currently head of the Investment Management Department of China Yituo and a supervisor of the Company. Mr. Xu has experience in production and operation management and internal auditof corporate finance. Mr. Xu graduated from Jiangsu Polytechnic University, majoring in industrial management and holds the title of Economist.

Mr. Zhao Shengyao, aged 52, joined China First Tractor Group in 1975. He has been the deputy general manager of Yituo (Luoyang) Construction Machinery Co., Ltd., and deputy general manager and secretary to the Party Committee of Yituo (Luoyang) Fuel Jet Co., Ltd. He joined the Company in July 2006 and is currently the deputy secretary to the Disciplinary Committee and head of the Audit Supervision Committee of China Yituo as well as a supervisor of the Company. Mr. Zhao has extensive experience in production, operation, and administration and supervision.

Mr. Shao Jianxin, aged 53, 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 No.2 Fabricating Factory of the Company. He joined the Company in 1997 and is currently the primary deputy factory manger of the Company's No.2 Fabricating Factory and a supervisor of the Company. Mr. Shao graduated from the postgraduate course of Henan Institute of Administration majoring in economics management, and holds the title of Engineer.

COMPANY SECRETARY

Ms. Yu Lina, aged 36, joined China First Tractor Group in 1992 and joined the Company in 1997. She was the legal adviser and head of the secretary to the Board of Directors of the Company and the assistant to company secretary. She is currently the Company Secretary of the Company. Ms. Yu is experienced in corporate management and capital operation. She studied at the Law Department of Zhongnan College of Politics and Law and majored in law at China University of Political Science and Law Ms. Yu holds the qualification of lawyer in the PRC and corporate legal advisers and a title of economist.

GENERAL MANAGER

Mr. Yan Linjiao, is general manager of the Company. For his details, please refer to page 26 of this annual report.

REPORT OF DIRECTORS

The directors herein present the report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

1. PRINCIPAL BUSINESS

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 profit for the year ended 31 December 2006 and the state of financial affairs of the Company and the Group as at 31 December 2006 are set out in the financial statements in pages 63 to 166.

The Directors do not recommend the payment of any final dividend for the year of 2006.

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, 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				
	2006	2005	2004	2003	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**6,101,451**	4,765,828	4,246,554	3,277,297	2,300,223
Profit/(loss) before tax	**87,467**	(77,482)	23,813	54,666	(36,784)
Tax	**(15,251)**	17,183	(13,953)	(21,641)	(15,088)
Profit/(loss) before minority interests	**72,216**	(60,299)	9,860	33,025	(51,872)
Minority interests	**633**	9,863	2,101	(16,697)	(7,618)
Net profit/(loss) from ordinary activities attributable to equity holders of the parent	**72,849**	(50,436)	11,961	16,328	(59,490)

Consolidated assets, liabilities and minority interests

	Year ended 31 December				
	2006	2005	2004	2003	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**4,991,222**	3,821,630	3,649,665	3,660,072	3,334,388
Total liabilities	**(2,623,173)**	(1,644,175)	(1,412,889)	(1,465,153)	(1,180,321)
Minority interests	**(170,018)**	(146,536)	(159,645)	(129,749)	(105,225)
Total equity attributable to equity holders of the parent	**2,198,031**	2,030,919	2,077,131	2,065,170	2,048,842

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 year.

During the year of 2006, the Company 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 ("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 to the financial statements.

9. DISTRIBUTABLE RESERVES

Details of the distributable reserves of the Company as at 31 December 2006 are set out in note 35(b) to the financial statements.

10. MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2006, 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 who own 5% of the share capital of the Company or above are aware, none of the Directors, Supervisors, their associates or any Shareholder 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. Zhao Yanshui
Mr. Liu Wenying
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, Gary
Mr. Chen Zhi
Mr. Luo Xiwen (appointed on 1 July 2006)

Supervisors:

Mr. Liu A Nan (resigning on 22 December 2006)
Mr. Zheng Luyu (appointed on 22 December 2006)
Mr. Zhao Zhonghai (resigning on 30 June 2006)
Mr. Kong Lingfu (appointed on 1 July 2006)
Mr. Xu Weilin
Ms. Wang Aiying (resigning on 30 June 2006)
Mr. Zhao Shengyao (appointed on 1 July 2006)
Mr. Shao Jianxin

12. SERVICE CONTRACTS OF THE DIRECTORS AND THE SUPERVISORS

Mr. Liu Dagong, Mr. Zhao Yanshui, Mr. Liu Wenying, Mr. Yan Linjiao, Mr. Li Tengjiao, Mr. Shao Haichen, Mr. Zhang Jing, Mr. Li Youji, Mr. Liu Shuangcheng, Mr. Zhao Fei, Mr. Kong Lingfu, Mr. Zhao Shengyao, Mr. Xu Weilin and Mr. Shao Jianxin entered into service contract with the Company on 1 July 2006. Mr. Zheng Luyu entered into a service contract with the Company on 22 December 2006. 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 2009.

(ii) The total annual salaries payable to each of the executive Directors each year for the three years term from 1 July 2006 will be RMB60,000, RMB66,000 and RMB72,600 respectively; the total annual salaries payable to each of the Supervisors each year for the three years term will be RMB36,000, RMB39,600 and RMB43,560 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 RMB30,000, RMB33,000 and RMB36,300 respectively. The bonuses payable to each of the Supervisors each year for the three years term will not be more than RMB18,000, RMB19,800 and RMB21,780 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 Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”) . The Company considers that all the independent non-executive Directors are independent.

13. DIRECTORS’ AND SUPERVISORS’ INTERESTS IN CONTRACTS

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

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

As at 31 December 2006, 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 debeutures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("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 RMB58,000,000. Mr Yan Linjiao contributed RMB290,000 to the total registered capital of Lutong Company and therefore hold 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 subsidiaries.

15. CONTRACTS OF SIGNIFICANCE

Neither the Company nor 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 or any subsidiary of the Company at any time during the year ended 31 December 2006.

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

As at 31 December 2006, the total issued 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 listed in the Stock Exchange (the "H Shares")	335,000,000	42.68
Total number of Shares	785,000,000	100.00

17. SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the following Shareholders (other than a Director, Supervisor or chief executive of the Company) of the Company had 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 interests	Number of Shares *(Note)*	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 interests	Number of Shares *(Note)*	Approximate percentage of the total issued H Shares of the Company
Fidelity International Limited	Investment manager	24,216,600 (L)	7.23%

Note:

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

Save as disclosed, there was no other person (other than a Director, Supervisor or chief executive of the Company) who, as at 31 December 2006, 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 section336 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 of the Stock Exchange of Hong Kong Limited (the "Listing Rules") as at the date of this report.

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

At no time during the Reporting Period 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 a party to any arrangement to enable the Directors or Supervisors to acquire such rights in any other corporation.

19. CONNECTED TRANSACTIONS

Details of the Group's connected transaction (within the meaning under the Listing Rules) are set out in note 43 to the financial statements.

On 13 October 2006, upon expiry of the five continuing connected transaction agreements entered into between the Company and China Yituo including the Financial Services Agreement dated 2 June 2004, the Group entered into five continuing connected transaction agreements namely the Composite Services Agreement, Material Supply Agreement, Energy Supply Services Agreement, First Tractor Supply Agreement and Financial Services Agreement with China Yituo. The respective terms of these five agreements are for a term of three years from 1 January 2007 to 31 December 2009. China Yituo beneficially owns approximately 57.32% of the issued share capital of the Company, and is the controlling shareholder of the Company. Thus, China Yituo and its subsidiaries are regarded as connected person of the Company under the Listing Rules. Accordingly the transactions contemplated under these five agreements and the respective proposed cap amounts constitute continuing connected transactions or financial assistance under Chapter 14A of the Listing Rules. These five agreements were subject to independent Shareholders' approval. The aforesaid five agreements of non-exempted continuing connected transactions and new caps related to the connected transactions were approved by the Shareholders at the extraordinary general meeting of the Company on 22 December 2006. Pursuant to the Composite Services Agreement, Material Supply Agreement and Energy Supply Services Agreement, China Yituo agreed to supply certain goods and services to the Company. Pursuant to the First Tractor Supply Agreement and Financial Secrecies Agreement, the Company agreed to supply certain goods and services to the Company. The consideration of the subject matter under the aforesaid agreements is determined with reference to the mandatory price in respect of welfare and supporting services, raw materials and components and utilities set by the central government of the PRC (the "State Price") or with reference to the market price taking into consideration of the cost. Pursuant to the Financial Services Agreement entered into between China First Tractor Group Finance Co., Ltd. and China Yituo, various financial services will be provided to China Yituo Group.

The Company and China Yituo entered into three agreements in relation to continuing connected transactions on 13 December 2006, namely the First Tractor Properties Lease Agreement, Yituo Facilities Lease Agreement and Yituo Properties Lease Agreement, which were exempt from independent Shareholders' approval. The Company has made disclosures pursuant to the relevant requirements of the Listing Rules.

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

On 8 May 2006, the Company entered into the Assets Swap Agreement with China Yituo pursuant to which the Company agreed with China Yituo to exchange for the casting factories interests at an aggregate consideration of RMB158.24 million for the 58.80% equity interest in Yituo (Luoyang) Diesel Co., Ltd. ("Yituo Diesel") and 70% equity interest in Yituo (Louyang) Fuel Jet Company Limited ("Yituo Fuel Jet") as a consideration of RMB154.75 million and RMB43.27 million respectively. At Completion, the net consideration payable by the Company to China Yituo pursuant to the Assets Swap Agreement is approximately RMB39.78 million.

On 8 May 2006, Yituo Diesel and Yituo Fuel Jet respectively entered into the Diesel Repayment Agreement and the Fuel Jet Repayment Agreement with China Yituo, pursuant to which, each of the Yituo Diesel and Yituo Fuel Jet has agreed the repayment terms for China Yituo to repay the existing financial assistances provided from Yituo Diesel and Yituo Fuel Jet of approximately RMB81 million and RMB26 million respectively following the completion of the assets swaps pursuant to Assets Swap Agreement.

The aforesaid agreements of continuing connected transactions and matters related to the connected transactions were approved by the Shareholder at the extraordinary general meeting of the Company on 28 July 2006. The asset swap transactions mentioned in note 43 to financial statements of this report are related to the continuing connected transactions.

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 favourable 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

Save as aforesaid, none of the "Related Party Transactions" as disclosed in note 43 to the financial statements for the year ended 31 December 2006 constituted discloseable non-exempted connected transaction or non-exempted continuing connected transaction under 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.

20. SHARE PLEDGE

1. On 29 September 2006, China Yituo (the controlling Shareholder of the Company) pledged its own 50,000,000 domestic shares in the Company to Zhengzhou Branch, Shanghai Pudong Development Co., Ltd. ("Pudong Bank") as a security to secure a one-year loan facility for a maximum amount of RMB50,000,000 granted by Pudong Bank to Yituo (Luoyang) Fuel Jet Company Limited, a non-wholly owned subsidiary of the Company. Upon the Company receiving the notice of the corporate substantial shareholder of the Company from Pudong Bank and China Yituo, the Company made an announcement in relation thereto.

2. On 31 December 2006, China Yituo (the controlling shareholder of the Company) pledged the 100,000,000 domestic shares in the Company held by it to Bank of China Limited ("Bank of China") Luoyang Branch as a security for the loan of RMB311,710,000 granted by Bank of China to China Yituo. Being an authorised financial institution in Hong Kong, Bank of China was exempted from submission of the "notice from the corporate substantial shareholder of the Company".

21. APPLICATION OF THE PROCEEDS FROM THE H SHARES ISSUE

The Company raised approximately RMB1,615,500,000 (approximately HK$1,507,500,000) through 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 RMB1,472,435,000 which had been used and disclosed in the previous annual reports of the Company, were also applied to the following purposes during the year:

— Approximately RMB79,345,000 was continued to be used for financing projects including large/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 was 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 is considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

23. SIGNIFICANT EVENTS

Save for the connected transactions disclosed in paragraph 19 of this report, the Company had the following significant events during 2006:

1. On 8 May 2006, the Board of the Company approved the acquisition of 58.8% equity interests in Yituo (Luoyang) Diesel Co., Ltd. ("Yituo Diesel Company") and 70% equity interests in Yituo (Luoyang) Fuel Jet Company Limited ("Yituo Fuel Jet Company")by the Company from China Yituo at a consideration of RMB154,750,000 and RMB43,270,000 respectively, which were determined based on the evaluated net assets of Yituo Diesel Company and Yituo Fuel Jet Company and with reference to the two companies' profitability, and meanwhile the Company was approved to dispose the assets and interests of its four casting factories (assets and liabilities under the Asset Swap Agreement) to China Yituo with the evaluated net value of RMB158,240,000 as consideration. The difference between the acquisition of equity interests and the disposal of assets and interests was RMB39,780,000 which was payable to China Yituo by the Company. The aforesaid transactions were approved by the Shareholders at the extraordinary general meeting of the Company on 28 July 2006.

2. On 29 December 2006, the Board of the Company approved the joint establishment of Yituo Shunxing (Luoyang) Spare Parts Company Limited ("Shunxing Spare Parts Company") with Liaoning Shunxing Combustion Engine Crankshaft Company Limited ("Liaoning Shunxing Company") and 17 natural persons with registered capital of RMB40,000,000, of which the company contributed RMB16,000,000 in cash, representing 40% equity interests, Liaoning Shunxing Company contributed RMB15,200,000 in cash, representing 38% equity interests, and such natural persons contributed RMB8,800,000 in cash, representing 22% equity interests. Shunxing Spare Parts Company mainly engaged in production of forged steel crankshafts.

24. POST BALANCE SHEET EVENT

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

25. 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. Details are set out in the Corporate Governance Report of this annual report.

26. MATERIAL LITIGATION

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

27. AUDITORS AND QUALIFIED ACCOUNTANTS

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.

Pursuant to Rule 3.24 of the Listing Rules, the Company shall 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 use every endeavour to recruit a suitable candidate to assume such position as soon as possible. The Company will keep the Shareholders informed of the progress of appointment.

By order of the Board
Liu Dagong
Chairman

Luoyang, the PRC
20 April 2007

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 the Listing Rules, and implementing improved governance and disclosure measures to ensure the sustainable and healthy growth of the Company. The Board has established Audit Committee and Remuneration and Review Committee to ensure the efficient operation of the Board and set up a regulation system catering to the management of the Company for effective implementation of their respective duties. The Company will continue to enhance its corporate governance measures and transparency in the Shareholders' regard.

THE BOARD OF DIRECTORS

The Board comprises ten executive Directors, namely Mr. Liu Dagong (Chairman), Mr. Zhao Yanshui, Mr. Liu Wenying, Mr. Yan Linjiao, Mr. Li Tengjiao, Mr. Shao Haichen, Mr. Zhang Jing, Mr. Li Youji, Mr. Liu Shuangcheng and Mr. Zhao Fei and four independent non-executive Directors, namely Mr. Lu Zhongmin, Mr. Chan Sau Shan, Gary, Mr. Chen Zhi and Mr. Luo Xiwen. Their respective biographical details are set on pages 26 to 27 of this annual report.

All directors of the Company (including independent non-executive Directors) were re-elected on 16 June 2006 and the employment took effect from 1 July 2006 for a term of three years. Among them, Mr. Luo Xiwen is a newly-appointed independent non-executive Director.

The Board is the legal business decision body of the Company. It is responsible for the leadership and control over 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 formulating and reviewing the Group's development and operating strategy and policies, making annual budget, final accounting scheme and business plans, proposing dividend plans as well as supervising management members in accordance with relevant laws and regulations and the Articles of Association. Led by the general manager, the management of the Company is responsible for supervision over the Company's day-to-day operations, policy planning and implementation and reports to the Board in respect of all businesses. The general manager keeps in contact with all directors and ensures directors' timely access to adequate, complete and reliable information.

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

During the year, the Board of the Company convened a total of 11 meetings. Attendance of each Director is as follows:

	Name of Directors	**Number of attendance / number of possible attendance**
Chairman	Mr. Liu Dagong	11/11
Executive Directors	Mr. Zhao Yanshui	11/11
	Mr. Liu Wenying	11/11
	Mr. Yan Linjiao *(General manager)*	11/11
	Mr. Li Tengjiao	11/11
	Mr. Shao Haichen	11/11
	Mr. Zhang Jing *(Financial controller)*	11/11
	Mr. Li Youji	10/11
	Mr. Liu Shuangchen	11/11
	Mr. Zhao Fei	11/11
Independent non-executive Directors	Mr. Lu Zhongmin	8/11
	Mr. Chen Sau Shan, Gary	4/11
	Mr. Chen Zhi	7/11
	Mr. Luo Xiwen	5/11

All of the four independent non-executive Directors meet the evaluations on independence set out in Rule 3.13 of the Listing Rules.

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

The Board convened four regular meetings this year. Before holding of each regular meeting, notice was delivered fourteen days prior to the date of the meeting, to ensure that all Directors have the opportunity to propose discussion matters to be listed in the agenda. Documents containing the meeting agenda were sent to each Director four days before the date of the meeting. Notices of other Board meetings have 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 secretary to the Board, including documents containing the meeting agenda, minutes of meetings, daily information on shares on the Stock Exchange, and the Group's latest development and business progress.

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 2006.

CHAIRMAN OF THE BOARD AND GENERAL MANAGER

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

Their biographical details are set out on page 26 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 day-to-day business management, and with a balance of power and authority, power was not concentrated in any individual.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The term of the four independent non-executive Directors in the current session of the Board is three years from 1 July 2006 to 30 June 2009. As at 30 June 2006 Mr. Lu Zhongmin and Mr. Chan Sau Shan, Gary, had served as independent non-executive Directors of the Company for full nine years. The Company considered that they remained independent and hence proposed to the general meeting for audit of such independence, On 16 June 2006, the two were re-elected as independent non-executive Directors by a special resolution passed at the Company's general meeting. Mr. Luo Xiwen is a new independent non-executive Director, who was elected and appointed at the said general meeting.

SECURITIES TRANSACTION BY 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 (after specific enquiries by the Company), have complied with the Modal Code in relation to securities transactions conducted by the Directors.

DUTIES OF DIRECTORS IN RESPECT OF FINANCIAL STATEMENTS

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

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

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

DIRECTORS' REMUNERATION

In accordance with the Listing Rules, the Company has set up Remuneration and Review Committee to formulate policies of the Directors' 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 and senior management.

Members of the Remuneration and Review Committee include Mr. Chen Zhi (chairman), Mr. Liu Dagong and Mr. Lu Zhongmin.

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

During the Reporting Period, the committee convened one meeting to discuss matters relating to remuneration with the attendance of Mr.Chen Zhi, Mr. Liu Dagong and Mr. Lu Zhongmin. The Remuneration and Review Committee has formulated relevant remuneration policies for executive Directors, evaluated performance of executive Directors and approved contract terms thereof. Relevant details are set out on page 36 of this annual report.

NOMINATION OF DIRECTORS

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

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

The nomination, appointment and re-appointment of Directors is made on the basis of expertise, work experience, diligence, and level of knowledge in a fair and objective manner.

AUDITORS' REMUNERATION

Ernst & Young is responsible for provision of the statutory audit services and other services in relation to the Company's 2006 Interim Report and the financial statements of the Company for the year ended 31 December 2006 prepared under the Hong Kong Financial Reporting Standards and the PRC Accounting Standards and Regulations. The Company has paid RMB5,700,000 for such services, which included taxes and disbursements.

During the year, Ernst & Young did not provide any unaudited services to the Company.

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 and the audit fee of accountants as well as any questions in respect of their resignations or dismissal;

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

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

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

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

In the year 2006, the Audit Committee convened two meetings with the financial controller and external auditors. The results of the Company for year 2005 and the interim results of the Company for year 2006 were considered. The Audit Committee has also reviewed the annual results of the Group for the year ended 31 December 2006.

INTERNAL CONTROL

The Board is responsible for the overall internal control system of the Company. During the year, the Directors reviewed the internal control system of the Company and its subsidiaries, and are satisfied with their overall performance. The Audit Committee has been performing their duties throughout the year and has reviewed and discussed the financial results and internal control system of the Company.

The Board formulated series of internal controls and management standards and examined the overall financial position of the Company to secure the Company's assets. It also rationalised the Company's operation and management process and conducted regular supervision on risk management for avoidance of materials risks or losses and to ensure the decisions made by the Board were in compliance with the laws and regulations and were implemented. In implementing the Group's development strategy and operating policy, the Board formulated management systems relating to the Company's corporate governance and enhanced the management on subsidiaries of the Company to regulate their performance.

INVESTOR RELATIONS

During the year, there was no change in the Articles of Association of the Company.

Details of the shareholder category of the Company and total number of holdings were set out from Page 39 to Page 40 of the annual report as at 31 December 2006.

The public float capitalisation of the Company reached HK$884,400,000.

The Board of the Company was committed to the effective communication with shareholders, and took the opportunity to vote in respect of every independent matter by way of the independent proposal in the Annual General Meeting held on 16 June 2006, and the Extraordinary General Meetings respectively held on 22 December 2006 and 28 July 2006 and all the proposals were approved.

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

The Board and the Audit committee have no different views in respect of the appointment of the external auditors.

By order of the Board
Liu Dagong
Chairman

Luoyan, the PRC
20 April 2007

REPORT OF THE SUPERVISORY COMMITTEE

I herein report that the supervisory committee of the Company (the "Supervisory Committee") has executed the function of supervision 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 of the Company as at the year ended 31 December 2006.

1. In accordance with the Articles of Association, the supervisors attended the Directors' meetings, participated in the Company's major activities, monitored the matters resolved by the Board and discharged their duties of supervising directors, general manager and other senior officers.

2. During the Reporting Period, the Supervisory Committee did not receive any report of or discover any violation of the Articles of Association, the laws and regulations and actions that infringed the Company's interests by the Company. In the opinion of the Supervisory Committee, the Board managed the Company in accordance with the Company Law of the PRC, Articles of Association, the relevant laws, regulations and system.

3. During the Reporting Period, the Supervisory Committee did not receive any report of or discover violation of the Articles of Association, the laws and regulations and actions that infringsed 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 shareholders.

   During the Reporting Period, 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.

4. The Supervisory Committee considers that the financial statements of the Group for the year ended 31 December 2006 which has been audited by Ernst & Young, Certified Public Accountants, reflects a true and fair view of the operating results and assets of the Group in such year.

5. The Supervisory Committee reviewed 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.

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

Luoyang, the PRC
20 April 2007

The following details are the supplementary information related to the Group's financial operation. This information does 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 has the director (being the general manager of the Company) and the deputy director and consists of the management and the heads of relevant business departments of the Company.

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 has the director (being the general manager of the Company) and the deputy director and consists of the management and the heads of relevant business departments of the Company.

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 has the director (being the general manager of the Company) and the deputy director and consists of the management and the heads of relevant business departments of the Company.

INVESTMENT AUDIT COMMITTEE

The investment audit committee is responsible for review of the Company's investment business, and communication of phased investment targets in line with the overall investment guidelines, strategies and investment scale determined by the general meetings and the board of directors of the Company, and approval of investment schemes and proposals. The investment audit committee has the director (being the general manager of the Company) and the deputy director and consists of the management and the heads of relevant business departments of the Company.

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.

Compliance risk

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

To establish a strong compliance culture, an effective compliance risk management system and the accountability system for compliance risk management, FTGF implements honest and diligent work integrity and values while employing the legal advisor with an inspect department to review the progress of internal control against the compliance risk.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 2006 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, 15 June 2007 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 2006;

2. To consider and approve the report of the supervisory committee of the Company for the year 2006;

3. To consider and approve the audited financial report for the year 2006;

4. To consider and approve the dividend distribution proposal (if any) for the year ended 31 December 2006;

5. To consider and approve the re-appointment of Ernst & Young as auditors of the Company for the year 2007 and to authorise the Board to determine their remuneration;

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

7. Other matters.

(2) AS SPECIAL RESOLUTIONS:

1. Subject to the accumlated limit not exceeding 50% of the net assets of the Company, to authorize 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 2007.

Notes:

1. The register of members of the Company will be temporarily closed from 16 May 2007 to 15 June 2007 (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 15 May 2007 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 15 May 2007 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 authorization 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 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 Friday, 25 May 2007.

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@ytogroup.com

As at the date of this announcement, the Board comprises ten executive Directors, namely, Mr. LIU Dagong (Chairman), Messrs. ZHAO Yanshui, LIU Wenying, YAN Linjiao, LI Tengjiao, SHAO Haichen, ZHANG Jing, LI Youji, LIU Shuangcheng and ZHAO Fei and four independent non-executive Directors, namely, Messrs. LU Zhongmin, CHEN Zhi, CHAN Sau Shan, Gary and Mr. LUO Xiwen.

Luoyang, the PRC
20 April 2007

ERNST & YOUNG

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

We have audited the financial statements of First Tractor Company Limited set out on pages 63 to 166, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

20 April 2007

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
REVENUE	5	**6,101,451**	4,765,828
Cost of sales		**(5,509,093)**	(4,408,063)
Gross profit		**592,358**	357,765
Other income and gains	5	**106,716**	103,523
Selling and distribution costs		**(229,618)**	(172,021)
Administrative expenses		**(338,610)**	(262,482)
Other operating expenses, net		**(28,613)**	(86,126)
Finance costs	7	**(16,593)**	(11,186)
Share of profits and losses of associates		**1,827**	(6,955)
PROFIT/(LOSS) BEFORE TAX	6	**87,467**	(77,482)
Tax	10	**(15,251)**	17,183
PROFIT/(LOSS) FOR THE YEAR		**72,216**	(60,299)
Attributable to:			
Equity holders of the parent	11	**72,849**	(50,436)
Minority interests		**(633)**	(9,863)
		72,216	(60,299)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**RMB9.28 cents**	RMB(6.42) cents

CONSOLIDATED BALANCE SHEET

31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,005,697**	785,143
Construction in progress	14	**226,543**	151,620
Prepaid land premiums	15	**20,192**	13,761
Goodwill	16	**52,990**	—
Interests in associates	18	**20,449**	98,726
Available-for-sale investments	19	**251,399**	71,984
Loans receivable	20	**146,699**	195,664
Deferred tax assets	33	**34,273**	28,235
Total non-current assets		**1,758,242**	1,345,133
CURRENT ASSETS			
Inventories	21	**852,366**	755,227
Trade and bills receivables	22	**744,774**	448,641
Loans receivable	20	**174,820**	193,685
Bills discounted receivable	23	**219,561**	167,437
Prepayments, deposits and other receivables	24	**349,628**	244,378
Equity investments at fair value through profit or loss	26	**3,487**	3,576
Pledged deposits	27	**122,440**	121,124
Cash and cash equivalents	27	**765,904**	542,429
Total current assets		**3,232,980**	2,476,497
CURRENT LIABILITIES			
Trade and bills payables	28	**1,279,361**	843,988
Tax payable		**17,700**	5,459
Other payables and accruals	29	**495,308**	388,223
Customer deposits	31	**156,814**	199,028
Interest-bearing bank borrowings	32	**441,558**	172,250
Provisions	30	**28,066**	16,785
Total current liabilities		**2,418,807**	1,625,733
NET CURRENT ASSETS		**814,173**	850,764
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,572,415**	2,195,897

CONSOLIDATED BALANCE SHEET

31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	32	**120,000**	1,000
Other long term liability		**27,680**	—
Deferred tax liability	33	**47,850**	—
Provisions	30	**8,836**	17,442
Total non-current liabilities		**204,366**	18,442
Net assets		**2,368,049**	2,177,455
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	34	**785,000**	785,000
Reserves	35(a)	**1,413,031**	1,245,919
		2,198,031	2,030,919
Minority interests		**170,018**	146,536
Total equity		**2,368,049**	2,177,455

Liu Dagong
Director

Yan Linjiao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

		Attributable to equity holders of the parent													
	Note	Issued share capital (*Note 34*)	Share premium account	Statutory surplus reserve	Statutory public welfare fund	General surplus reserve	Reserve fund	Enterprise expansion fund	General and statutory reserve	Available-for-sale investment revaluation reserve	Exchange fluctuation reserve	Accumulated losses	Total	Minority interests	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006		**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**
Changes in fair value of available-for-sale investments		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**97,150**	**—**	**—**	**97,150**	**—**	**97,150**
Exchange realignment		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(2,887)**	**—**	**(2,887)**	**—**	**(2,887)**
Total income and expense recognised directly in equity		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**97,150**	**(2,887)**	**—**	**94,263**	**—**	**94,263**
Profit for the year		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**72,849**	**72,849**	**(633)**	**72,216**
Total income and expense for the year		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**97,150**	**(2,887)**	**72,849**	**167,112**	**(633)**	**166,479**
Contributions from minority interests		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**30,685**	**30,685**
Dividends paid to minority shareholders		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(6,570)**	**(6,570)**
Transfer of statutory public fund		**—**	**—**	**—**	**(64,744)**	**64,744**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Transfer from/(to) reserves	35(a)	**—**	**—**	**8,753**	**—**	**—**	**348**	**203**	**2,229**	**—**	**—**	**(11,533)**	**—**	**—**	**—**
At 31 December 2006		**785,000**	**1,378,840***	**77,570***	**—***	**64,744***	**2,873***	**2,356***	**4,446***	**97,150***	**(4,244)***	**(210,704)***	**2,198,031**	**170,018**	**2,368,049**
At 1 January 2005		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)
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

* These reserve accounts comprise the consolidated reserves of RMB1,413,031,000 (2005: RMB1,245,919,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**87,467**	(77,482)
Adjustments for:			
Finance costs	7	**16,593**	11,186
Share of profits and losses of associates		**(1,827)**	6,955
Interest income	5, 6	**(34,902)**	(34,442)
Gain on disposal of items of property, plant and equipment, net	5, 6	**(3,953)**	(167)
Gain on disposal of a subsidiary	5, 6	**—**	(735)
Gain on disposal of an associate	5, 6	**—**	(11,000)
Depreciation	6	**97,364**	84,938
Amortisation of prepaid land premiums	6, 15	**553**	188
Impairment and reversal of impairment of construction in progress, net	6	**(5,335)**	6,990
Impairment and reversal of impairment of items of property, plant and equipment, net	6	**12,928**	12,661
Dividend income from unlisted investments	5, 6	**(665)**	(156)
Dividend income from listed investments	5, 6	**(2,000)**	—
Provision for impairment of trade receivables, net	6	**5,895**	23,098
Provision for other receivable	6	**5,000**	9,220
Net charge for impairment losses and allowances for loans receivable	6	**(353)**	(2,038)
Net charge for impairment losses and allowances for bills discounted receivable	6	**527**	358
Provision/(reversal of provision) against obsolete inventories, net	6	**(11,903)**	6,237
Net charge for early retirement benefits and product warranties	30	**30,642**	26,313
Fair value (gain)/loss on listed equity investments at fair value through profit or loss, net	5, 6	**(716)**	1,444
		195,315	63,568

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
		195,315	63,568
Decrease in inventories		**15,725**	89,535
(Increase)/decrease in loans receivable		**68,183**	(84,635)
(Increase)/decrease in trade and bills receivables		**(15,655)**	14,551
Increase in bills discounted receivable		**(52,724)**	(35,810)
Decrease in prepayments, deposits and other receivables		**99,942**	40,804
Increase in an amount due from the Holding		**(86,544)**	(23,760)
Decrease in equity investments at fair value through profit or loss		**89**	14,641
Increase in other long term liability		**27,680**	—
Increase in trade and bills payables		**146,636**	130,968
Decrease in customer deposits		**(46,039)**	(20,679)
Increase/(decrease) in accruals and other liabilities		**(50,578)**	77,764
Decrease in an amount due to the Holding		**(52,518)**	(42,345)
Cash generated from operations		**249,512**	224,602
Interest received		**34,902**	34,442
Interest paid		**(16,593)**	(11,186)
Income tax paid		**(25,637)**	(6,390)
Net cash inflow from operating activities		**242,184**	241,468

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend income from unlisted available-for-sale investments		**665**	156
Dividend income from listed investments		**2,000**	—
Dividend income received from an associate		**1,827**	7,207
Purchases of items of property, plant and equipment and additions to construction in progress	13, 14	**(174,004)**	(183,548)
Proceeds from disposal of items of property, plant and equipment		**6,493**	17,455
Purchases of unlisted available-for-sale equity investments		**(8,644)**	(4,190)
Purchase of land premiums		**(6,984)**	—
Net inflow of cash in respect of acquisition of subsidiaries		**47,528**	—
Disposal of an associate		**—**	40,000
Disposal of a subsidiary		**—**	3,550
Increase in mandatory reserve deposits in the People's Bank of China		**(6,512)**	(8,832)
(Increase)/decrease in time deposits		**56,000**	(62,718)
Increase in pledged deposits		**(1,316)**	(51,918)
Net cash outflow from investing activities		**(82,947)**	(242,838)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**415,858**	232,230
Repayment of bank loans		**(294,400)**	(153,040)
Dividends paid to minority shareholders		**(6,570)**	(3,721)
Contributions from minority shareholders		**1,725**	700
Net cash inflow from financing activities		**116,613**	76,169

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS		**275,850**	74,799
Cash and cash equivalents at beginning of year		**435,067**	361,625
Effect of foreign exchange rate changes, net		**(2,887)**	(1,357)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**708,030**	435,067
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	**681,382**	416,883
Non-pledged time deposits with original maturity of less than three months when acquired	27	**26,648**	18,184
		708,030	435,067

BALANCE SHEET

31 December 2006

	Notes	2006 RMB'000	2005 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	13	**466,272**	522,807
Construction in progress	14	**202,961**	138,625
Prepaid land premiums	15	**2,023**	2,092
Investments in subsidiaries	17	**915,263**	663,540
Investments in associates	18	**20,800**	80,760
Available-for-sale investments	19	**221,140**	70,420
Deferred tax assets	33	**20,906**	28,235
Total non-current assets		**1,849,365**	1,506,479
CURRENT ASSETS			
Inventories	21	**310,032**	378,736
Trade and bills receivables	22	**366,136**	315,039
Prepayments, deposits and other receivables	24	**125,008**	140,725
Due from subsidiaries	17	**118,777**	129,530
Loans to subsidiaries	17	**66,000**	52,000
Deposits placed with a subsidiary	17	**271,042**	240,980
Pledged deposits	27	**10,165**	58,391
Cash and cash equivalents	27	**290,369**	224,154
Total current assets		**1,557,529**	1,539,555
CURRENT LIABILITIES			
Trade and bills payables	28	**554,608**	526,451
Tax payable		**769**	769
Other payables and accruals	29	**224,450**	288,583
Due to subsidiaries	17	**—**	5,101
Interest-bearing bank borrowings	32	**143,000**	93,590
Provisions	30	**6,293**	5,529
Total current liabilities		**929,120**	920,023
NET CURRENT ASSETS		**628,409**	619,532
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,477,774**	2,126,011

BALANCE SHEET

31 December 2006

	Notes	2006 RMB'000	2005 RMB'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,477,774**	2,126,011
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	32	**74,000**	—
Other long term liability		**27,680**	—
Financial guarantee contracts	2.2(a)	**32,000**	18,388
Deferred tax liability	33	**47,850**	—
Provisions	30	**6,272**	14,541
Total non-current liabilities		**187,802**	32,929
Net assets		**2,289,972**	2,093,082
EQUITY			
Issued capital	34	**785,000**	785,000
Reserves	35(b)	**1,504,972**	1,308,082
Total equity		**2,289,972**	2,093,082

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 diesel engines, fuel injection pump and fuel jet

In the opinion of the directors, the parent and the ultimate parent of the Company 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 2006. 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.

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

The acquisititon of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HK(IFRIC) - Int 4	Determining whether an Arrangement contains a Lease
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 21 Amendment	Net Investment in a Foreign Operation

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

The principal changes in accounting policies are as follows:

(a) HKAS 39 Financial Instruments: Recognition and Measurement

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. During the current and prior years, the Company provided guarantees to banks in connection with bank loans and other banking facilities granted to its subsidiaries. Upon the adoption of this amendment, the Company is required to recognise these financial guarantee contracts as financial liabilities. The change in accounting policy has been recognised since 1 January 2005 when HKAS 39 was initially adopted by the Group/Company and the comparative amounts for the year ended 31 December 2005 have been restated. The effects of the above change are summarised below.

	2006	2005
	RMB'000	*RMB'000*
Company balance sheet at 31 December		
Cumulative increase in investments in subsidiaries	**32,000**	18,388
Cumulative increase in financial guarantee liabilities	**(32,000)**	(18,388)
	—	—

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

(a) HKAS 39 Financial Instruments: Recognition and Measurement *(continued)*

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(b) HK(IFRIC) - Int 4 Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

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

(c) HKAS 21 The Effects of Changes in Foreign Exchange Rates

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

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.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC) - Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) - Int 8	Scope of HKFRS 2
HK(IFRIC) - Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) - Int 10	Interim Financial Reporting and Impairment
HK(IFRIC) - Int 11	HKFRS 2 - Group and Treasury Share Transactions
HK(IFRIC) - Int 12	Service Concession Arrangements

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.

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

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires disclosures that include general information about how an entity identifies its operating segment, the type of products and services from which each operating segment derives its revenue and the information to be disclosed in the identified segment.

IFRIC - Int 7, IFRIC - Int 8, IFRIC - Int 9, IFRIC - Int 10, IFRIC - Int 11, IFRIC - Int 12, shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007, and 1 January 2008 respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7, and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, has unilateral control, directly or indirectly, over the joint venture;

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

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

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

2.4 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

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

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

Goodwill previously eliminated against consolidated retained profits

Prior to the adoption of HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated retained profits 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.

Excess over the cost of business combinations

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' profits or losses in the period in which the investments are acquired.

Impairment of non-financial assets other than goodwill

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets other than goodwill *(continued)*

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.

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.

Related parties

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

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

(b) the party is an associate;

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and 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 considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

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, that is, the date that the Group commits to purchase or sell 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Financial assets at fair value through profit or loss

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

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 subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. 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.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

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 three 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 other valuation models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

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 the income statement.

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.

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 has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(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 the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

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 them 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

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.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to the ultimate holding company and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provision, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial liabilities

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 recognized in the income statement.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

- where the deferred tax liability arises from 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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.

Government grants

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

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 a 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

2.4 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 the income statement. 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 not 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.

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.

Impairment of goodwill

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 the collectability and aging analysis of trade receivables and on the judgement of management. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of the customers. Management reassesses the estimation on each balance sheet date.

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

Estimation uncertainty *(continued)*

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.

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 estimates and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision of income taxes to be made. Where the final tax outcome of these matters 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.

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

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and deductible temporary difference to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses and deductible temporary difference at 31 December 2006 was RMB34,273,000 (2005: RMB28,235,000). The amount of unrecognized deferred tax assets in respect of unused tax losses and other temporary difference at 31 December 2006 was RMB59,437,000 (2005: RMB48,051,000). Further details are contained in note 33 to the financial statements.

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 and services are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the five 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;

4. SEGMENT INFORMATION *(continued)*

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

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Business segments

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 2006 and 2005.

Group	Agricultural machinery		Construction machinery		Financial operations		Diesel engines and fuel jets		Others		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue														
Sales to external customers	**4,699,191**	3,751,521	**1,198,603**	1,013,898	**—**	—	**203,614**	—	**43**	409	**—**	—	**6,101,451**	4,765,828
Intersegment revenue	**321,956**	285,549	**28,358**	46,692	**19,206**	15,373	**158,062**	—	**—**	—	**(527,582)**	(347,614)	**—**	—
Other income and gains	**—**	—	**—**	—	**31,864**	33,480	**—**	—	**—**	—	**—**	—	**31,864**	33,480
Total	**5,021,147**	4,037,070	**1,226,961**	1,060,590	**51,070**	48,853	**361,676**	—	**43**	409	**(527,582)**	(347,614)	**6,133,315**	4,799,308
Segment results	**148,020**	23,254	**(72,642)**	(122,768)	**35,112**	33,477	**(1,179)**	—	**(4,609)**	(3,015)	**—**	—	**104,702**	(69,052)
Interest, dividend and investment income													**8,691**	8,640
Gain on disposal of a subsidiary													**—**	735
Gain on disposal of an associate													**—**	11,000
Provision for other receivable													**(5,000)**	(9,220)
Unallocated expenses													**(6,160)**	(1,444)
Finance costs													**(16,593)**	(11,186)
Share of profits and losses of associates	**—**	7,589	**—**	—	**—**	—	**—**	—	**1,827**	(14,544)	**—**	—	**1,827**	(6,955)
Profit/(loss) before tax													**87,467**	(77,482)
Tax													**(15,251)**	17,183
Profit/(loss) for the year													**72,216**	(60,299)

4. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

Group	Agricultural machinery		Construction machinery		Financial operations		Diesel engines and fuel jets		Others		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment assets	**2,412,533**	2,363,035	**1,016,994**	929,758	**1,104,229**	1,052,074	**870,929**	—	**74,891**	77,667	**(890,767)**	(826,411)	**4,588,809**	3,596,123
Interests in associates	**—**	—	**—**	—	**—**	—	**—**	—	**20,449**	98,726	**—**	—	**20,449**	98,726
Unallocated assets													**381,964**	126,781
Total assets													**4,991,222**	3,821,630
Segment liabilities	**1,094,414**	1,009,779	**801,146**	644,593	**559,573**	512,670	**367,894**	—	**104,886**	124,835	**(890,767)**	(826,411)	**2,037,146**	1,465,466
Unallocated liabilities													**586,027**	178,709
Total liabilities													**2,623,173**	1,644,175
Other segment information:														
Capital expenditure	**138,863**	147,658	**24,962**	35,426	**88**	125	**15,839**	—	**1,236**	339	**—**	—	**180,988**	183,548
Depreciation	**63,033**	65,053	**19,749**	18,641	**523**	567	**13,685**	—	**374**	677	**—**	—	**97,364**	84,938
Impairment and reversal of impairment of items of property, plant and equipment and construction in progress, net	**(11,392)**	7,637	**15,000**	9,353	**—**	—	**—**	—	**3,985**	2,661	**—**	—	**7,593**	19,651
Provision for impairment of trade receivables, net	**(7,801)**	2,448	**14,887**	20,650	**—**	—	**(1,433)**	—	**242**	—	**—**	—	**5,895**	23,098
Provision/(reversal of provision) against obsolete inventories, net	**(772)**	(215)	**(10,810)**	6,452	**—**	—	**(824)**	—	**503**	—	**—**	—	**(11,903)**	6,237
Net charge for impairment losses and allowances for loans receivable	**—**	—	**—**	—	**(353)**	(2,038)	**—**	—	**—**	—	**—**	—	**(353)**	(2,038)

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:

	2006	2005
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**6,101,451**	4,765,828
Other income		
Bank interest income	**5,310**	7,460
Interest income from financial operations	**29,592**	26,982
Profit from sundry sales	**35,622**	29,046
Rental income	**6,075**	5,614
Dividend income from listed investments	**2,000**	—
Dividend income from unlisted investments	**665**	156
Others	**22,783**	21,339
	102,047	90,597
Gains		
Gain on disposal of items of property, plant and equipment, net	**3,953**	167
Gain on disposal of a subsidiary	**—**	735
Gain on disposal of an associate	**—**	11,000
Fair value gain on listed equity investments at fair value through profit or loss, net	**716**	—
Gain on disposal of listed equity investments at fair value through profit or loss, net	**—**	1,024
	4,669	12,926
	106,716	103,523

6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2006 RMB'000	2005 RMB'000
Cost of inventories sold		**5,509,093**	4,408,063
Depreciation	13	**97,364**	84,938
Amortisation of prepaid land premiums	15	**553**	188
Impairment and reversal of impairment of construction in progress, net*	14	**(5,335)**	6,990
Impairment and reversal of impairment of items of property, plant and equipment, net*	13	**12,928**	12,661
Employee benefits expense (excluding directors' and supervisors' remuneration - *note 8*):			
Wages and salaries		**355,158**	307,911
Pension scheme contributions**		**79,692**	65,333
Provision/(reversal of provision) for early retirement benefits	30	**(6,397)**	23,896
		428,453	397,140
Minimum lease payments under operating leases:			
Land and buildings		**14,653**	11,906
Plant and machinery		**1,272**	3,803
		15,925	15,709
Research and development costs		**65,551**	27,640
Auditors' remuneration		**4,900**	4,264
Provision for impairment of trade receivables, net		**5,895**	23,098
Provision for other receivable	24(i)	**5,000**	9,220
Net charge for impairment losses and allowances for loans receivable	20	**(353)**	(2,038)
Net charge for impairment losses and allowances for bills discounted receivable	23	**527**	358

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

	Notes	2006 RMB'000	2005 RMB'000
Interest expense on financial operations		**5,882**	6,868
Provision /(reversal of provision) against obsolete inventories, net		**(11,903)**	6,237
Gain on disposal of items of property, plant and equipment, net		**(3,953)**	(167)
Fair value (gain)/loss on listed equity investments at fair value through profit or loss, net		**(716)**	1,444
Gain on disposal of a subsidiary		**—**	(735)
Gain on disposal of an associate		**—**	(11,000)
Foreign exchange differences, net		**1,719**	600
(Gain)/loss on disposal of listed equity investments at fair value through profit or loss, net		**252**	(1,024)
Dividend income from unlisted investments		**(665)**	(156)
Dividend income from listed investments		**(2,000)**	—
Bank interest income		**(5,310)**	(7,460)
Interest income from financial operations		**(29,592)**	(26,982)
Gross rental income		**(6,075)**	(5,614)

* The impairment and 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 2006, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2005: Nil).

7. FINANCE COSTS

	Group	
	2006	2005
	RMB'000	*RMB'000*
Interest on bank and other loans wholly repayable within five years	**16,593**	11,186
Less: Interest capitalised	**—**	—
	16,593	11,186

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	
	2006	2005
	RMB'000	*RMB'000*
Fees	—	—
Other emoluments:		
Salaries, allowances and benefits in kind	**703**	600
Performance related bonuses	**350**	300
Pension scheme contributions	**235**	220
	1,288	1,120
	1,288	1,120

(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 (2005: Nil).

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

(b) Executive directors and supervisors

2006	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	—	54	27	18	99
Mr. Liu Wenying	—	54	27	18	99
Mr. Zhao Yanshui	—	54	27	18	99
Mr. Yan Linjiao	—	54	27	18	99
Mr. Li Tengjiao	—	54	27	18	99
Mr. Shao Haichen	—	54	27	18	99
Mr. Zhang Jing	—	54	27	18	99
Mr. Li Youji	—	54	27	18	99
Mr. Liu Shuangcheng	—	54	27	18	99
Mr. Zhao Fei	—	54	27	18	99
	—	540	270	180	990
Supervisors:					
Mr. Liu A Nan	—	32	16	11	59
Mr. Zhao Zhonghai	—	14	7	5	26
Mr. Xu Weilin	—	33	16	11	60
Ms. Wang Aiying	—	14	7	5	26
Mr. Shao Jianxin	—	33	16	11	60
Mr. Zhao Shengyao	—	18	9	6	33
Mr. Kong Lingfu	—	18	9	6	33
Mr. Zheng Luyu	—	1	—	—	1
	—	163	80	55	298
	—	703	350	235	1,288

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

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

2005	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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 Jianxin	—	28	14	10	52
	—	140	70	50	260
	—	600	300	220	1,120

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 five (2005: two) non-director employees, details of whose remuneration are as follows:

	Group	
	2006	2005
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**857**	200
Performance related bonuses	**—**	105
Pension scheme contributions	**194**	15
	1,051	320

None of the highest paid employees (2005: three) for the year are directors of the Company, details of whose remuneration are set out in note 8 above.

The remuneration of the five (2005: two) non-director, highest paid employees fell within the band of nil to RMB1,000,000.

10. TAX

	Group	
	2006	2005
	RMB'000	*RMB'000*
Group:		
Current - PRC corporate income tax charge for the year	**15,887**	10,811
Underprovision/(overprovision) in prior years	**(127)**	241
Deferred tax *(note 33)*	**(509)**	(28,235)
Total tax charge/(credit) for the year	**15,251**	(17,183)

10. TAX *(continued)*

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the two years ended 31 December 2006 and 2005.

The PRC corporate income tax for the Company and the majority of its subsidiaries is calculated at rates ranging from 10% to 33% (2005: 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 Mainland China 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 (2005: Nil).

The share of tax attributable to associates amounting to RMB14,283,000 (2005: RMB5,173,000), 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% (2005: 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			
	2006		2005	
	RMB'000	**%**	*RMB'000*	%
Profit /(loss) before tax	**87,467**		(77,482)	
Tax at the PRC statutory tax rate	**28,864**	33	(25,569)	33
Lower tax rate for specific provinces or local authority	**(14,069)**	(16)	(2,139)	3
Adjustments in respect of current tax of previous periods	**(127)**	—	241	—
Profits and losses attributable to associates	**(603)**	(1)	2,295	(3)
Income not subject to tax	**(8,344)**	(10)	(395)	1
Expenses not deductible for tax	**29,998**	35	34,445	(45)
Tax losses utilised from previous periods	**(35,731)**	(41)	(57,664)	74
Tax losses not recognised	**15,263**	17	31,603	(41)
Tax charge/(credit) at the Group's effective rate	**15,251**	17	(17,183)	22

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of RMB99,740,000 (2005: RMB91,181,000) which has been dealt with in the financial statements of the Company (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 profit for the year attributable to ordinary equity holders of the parent of RMB72,849,000 (2005: loss of RMB50,436,000), and the weighted average number of 785,000,000 (2005: 785,000,000) ordinary shares in issue during the year.

Diluted earnings/(loss) per share amounts for the years ended 31 December 2006 and 31 December 2005 have not been disclosed as no diluting events existed during both years.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
31 December 2006				
At 31 December 2005 and at 1 January 2006:				
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
At 1 January 2006, net of accumulated depreciation and impairment	360,091	390,495	34,557	785,143
Additions	6,066	12,035	1,474	19,575
Disposals	(6,241)	(75,384)	(4,317)	(85,942)
Acquisition of subsidiaries *(note 36)*	46,980	200,197	4,310	251,487
Impairment	(8,219)	(8,794)	(1,810)	(18,823)
Depreciation provided during the year	(26,944)	(66,042)	(4,378)	(97,364)
Reversal of impairment	—	5,895	—	5,895
Transfer from construction in progress *(note 14)*	63,553	75,536	6,637	145,726
At 31 December 2006, net of accumulated depreciation and impairment	435,286	533,938	36,473	1,005,697
At 31 December 2006:				
Cost	990,175	1,520,824	62,064	2,573,063
Accumulated depreciation and impairment	(554,889)	(986,886)	(25,591)	(1,567,366)
Net carrying amount	435,286	533,938	36,473	1,005,697

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 2005				
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	(1,374)	(5,471)	(242)	(7,087)
Contributions by minority shareholders 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)*

Company

	Buildings	Plant, machinery and equipment	Transportation vehicles and equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2006				
At 31 December 2005 and at 1 January 2006:				
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
At 1 January 2006, net of accumulated depreciation and impairment	214,653	298,556	9,598	522,807
Additions	—	5,632	—	5,632
Disposals	(2,297)	(73,570)	(1,691)	(77,558)
Depreciation provided during the year	(16,931)	(42,241)	(1,651)	(60,823)
Reversal of impairment	—	5,895	—	5,895
Transfer from construction in progress *(note 14)*	23,343	42,238	4,738	70,319
At 31 December 2006, net of accumulated depreciation and impairment	218,768	236,510	10,994	466,272
At 31 December 2006:				
Cost	618,219	846,608	19,340	1,484,167
Accumulated depreciation and impairment	(399,451)	(610,098)	(8,346)	(1,017,895)
Net carrying amount	218,768	236,510	10,994	466,272

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 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

Certain of the Group's buildings and machinery are leased to third parties under operating leases, further summary details of which are included in note 41(a) to the financial statements.

At 31 December 2006, certain of the Group's buildings and machinery with an aggregate net carrying value of approximately RMB91,009,000 (2005: RMB18,806,000) were pledged to secure certain short term bank loans granted to the Group (note 32).

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

Impairment and reversal of impairment of items of property, plant and equipment recognised in the income statement during the year is summarised as follows:

	2006	2005
	RMB'000	*RMB'000*
Construction machinery segment - note	**15,000**	10,000
Other segments	**(2,072)**	2,661
	12,928	12,661

Note: Due to the sustained losses of the construction machinery segment during the year and prior year, 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") and Yituo (Luoyang) Construction Machinery Co., ("YCMC"), subsidiaries of the Company. 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.

14. CONSTRUCTION IN PROGRESS

	Group	Company
	RMB'000	*RMB'000*
31 December 2006		
At 31 December 2005 and 1 January 2006:		
Cost	165,622	152,233
Impairment	(14,002)	(13,608)
Net carrying amount	151,620	138,625
At 1 January 2006, net of impairment	151,620	138,625
Additions	154,429	129,158
Transfer to items of property, plant and equipment *(note 13)*	(145,726)	(70,319)
Acquisition of subsidiaries *(note 36)*	60,885	—
Impairment recognised in the income statement during the year	(162)	—
Reversal of impairment recognised in the income statement during the year	5,497	5,497
At 31 December 2006, net of impairment	226,543	202,961
At 31 December 2006:		
Cost	234,280	210,143
Impairment	(7,737)	(7,182)
Net carrying amount	226,543	202,961

14. CONSTRUCTION IN PROGRESS *(continued)*

	Group	Company
	RMB'000	*RMB'000*
31 December 2005		
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	(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

An impairment loss of RMB162,000 (2005: 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 dates, 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 to their intended use, and the relevant impairment provision was reversed accordingly.

15. PREPAID LAND PREMIUMS

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Carrying amount at 1 January	**13,761**	7,747	**2,092**	—
Additions	**6,984**	6,202	**—**	2,160
Amortisation recognised during the year	**(553)**	(188)	**(69)**	(68)
Carrying amount at 31 December	**20,192**	13,761	**2,023**	2,092

The leasehold lands are held under a medium term leases and is situated in the, Mainland China.

At 31 December 2006, certain of the Group's prepaid land premiums with an aggregate net carrying value of approximately RMB8,304,000 (2005: Nil) were pledged to secure bank loans granted to the Group (Note 32 (iii)).

16. GOODWILL

Group

	Goodwill
	RMB'000
Cost at 1 January 2005 and 31 December 2005	—
Acquisition of subsidiaries *(note 36)*	52,990
Impairment during the year	—
Cost and carrying amount at 31 December 2006	52,990
At 31 December 2006	
Cost	52,990
Accumulated impairment	—
Net carrying amount	52,990

16. GOODWILL *(continued)*

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the cash-generating unit (the "CGU") of diesel engines and fuel jets, which is a reportable segment, for impairment testing. The recoverable amount of this CGU has been determined based on value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projection is 6.5%, which is based on the current costs of borrowings. The growth rate used for the five-year period is based on management's prudence estimation which is in the range of 4%-5%. The key assumptions are as follows:

a) The expected growth demand from the existing market;

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

c) The production capacity of the CGU.

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

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2006	2005
	RMB'000	*RMB'000*
		(Restated)
Unlisted investments, at cost	**940,565**	698,847
Financial guarantee granted to subsidiary - note 2.2(a) and note 39	**32,000**	18,388
Impairment for unlisted investments	**(57,302)**	(53,695)
	915,263	663,540

The loans to subsidiaries of RMB68,000,000 (2005: RMB52,000,000) with an impairment of RMB2,000,000 (2005: Nil) included in the Company's current assets, which are granted in the form of designated deposits through a financial institution subsidiary of the Company, are unsecured, bear interest at rates ranging from 5.31% to 6.12% (2005: 5.31% to 6.70%) per annum and are repayable within one year.

The amounts due from and due to subsidiaries of RMB118,777,000 (2005: RMB129,530,000) and nil (2005: RMB5,101,000) included in the Company's current assets and current liabilities, respectively, are unsecured, interest-free and are repayable on demand or within one year.

Deposits in a subsidiary are deposits placed by the Company in a financial institution subsidiary. Except for a one-year time deposit of RMB10 million placed therein which bears interest at a rate of 2.52% per annum, all 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.

17. INVESTMENTS IN SUBSIDIARIES *(continued)*

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Brilliance China Machinery Holdings Limited 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	Mainland China	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	Mainland China	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	Mainland China	RMB500,000	99	—	Trading of tractors
Yituo Shenyang Tractor Company Limited* # 一拖瀋陽拖拉機有限公司	Mainland China	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	Mainland China	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	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	Mainland China	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	Mainland China	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	Mainland China	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	Mainland China	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	Mainland China	RMB500,000,000	87.8	9.1	Provision of financial services
Yituo (Luoyang) Building Construction Machinery Company Limited ("YLBC")* # - *note (i)* 一拖(洛陽)建工機械有限公司	Mainland China	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		Principal activities
			Direct	Indirect	
Yituo (Luoyang) Shentong Construction Machinery Company Limited ("YLST")* # - note (ii) 一拖(洛陽)神通工程機械有限公司	Mainland China	RMB13,000,000	50	—	Manufacture and sale of construction machinery
Yituo (Luoyang) Lutong Construction Machinery Company of Limited ("YLLT")* # - note (iii) 一拖(洛陽)路通工程機械有限公司	Mainland China	RMB58,000,000	—	43.7	Manufacture and sale of construction machinery
Yituo (Luoyang) Construction Machinery Trading Co., Limited ("YLCMT") * # 一拖(洛陽)工程機械銷售有限公司	Mainland China	RMB8,000,000	40	46.3	Trading of road rollers and construction machinery
Luoyang Changxing Agriculture Machinery Company Limited * # 洛陽長興農業機械有限公司	Mainland China	RMB3,000,000	70	30	Trading of Tractors
Yituo (Luoyang) Agricultural Machinery and Tools Co., Ltd. ("YLAT") * # 一拖(洛陽)機具有限公司	Mainland China	RMB10,000,000	73	—	Manufacture and sale of agricultural machinery and tools

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		Principal activities
			Direct	Indirect	
Yituo (Luoyang) Diesel Co., Ltd. ("YLDC") * + q - note (iv) 一拖(洛陽)柴油機有限公司	Mainland China	RMB51,718,205	58.8	22.5	Manufacture and sale of diesel engines
Yituo (Louyang) Fuel Jet Co., Ltd. ("YLFJ")* # q - note (iv) 一拖(洛陽)燃油噴射有限公司	Mainland China	RMB52,000,000	77	14.6	Manufacture and sale of fuel injection pumps and fuel jets
Yituo (Luoyang) Engines machinery Company Limited ("YEMC") 一拖(洛陽)動力機械有限公司	Mainland China	RMB38,000,000	42	40.7	Manufacture and sale of diesel engines
Yituo (Luoyang) Transportation Machinery Co., Ltd. ("YLTM") * # q 一拖(洛陽)搬運機械有限公司	Mainland China	RMB24,158,600	79.3	—	Manufacture and sale of fork lifts
Yituo (Louyang) Fork Lift Trading Co., Ltd. ("YLFT")* # q 一拖(洛陽)叉車銷售有限公司	Mainland China	RMB800,000	—	55.5	Sale of fork lifts
Luoyang Qirui Steel Casting Company Ltd. ("LQSC") * # - note (v) 洛陽市齊瑞鑄鋼有限公司	Mainland China	RMB4,010,000	—	30.4	Manufacture and sale of steel and forging products

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 have 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 on 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 on 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.

(iv) During the year, the Company and the Holding entered into an asset swap agreement pursuant to which the Company acquired a 58.8% equity interest in YLDC and a 70% equity interest in YLFJ. Thereafter, YLDC and YLFJ became subsidiaries of the Group. Further details of this acquisition are included in notes 36 and 43(e).

(v) In December 2005, certain shareholders of LQSC agreed to confer the voting rights to YBMC, a subsidiary of the Gorup, in accordance with minutes of shareholders' meeting, such that YBMC secured voting rights exceeding 50% of the voting rights eligible to be cast in the shareholders' meeting of LQSC. The directors of the Company considered that it is insignificant to Group for the year ended 31 December 2005 and YBMC effectively gained control since 1 January 2006. In this regard, LQSC was consolidated in preparation of the financial statements starting from 1 January 2006.

* 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

q Subsidiaries newly acquired 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.

18. INTERESTS/INVESTMENTS IN ASSOCIATES

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted shares, at cost	**—**	—	**106,800**	122,760
Share of net assets	**20,449**	98,726	**—**	—
	20,449	98,726	**106,800**	122,760
Provision for impairment	**—**	—	**(86,000)**	(42,000)
	20,449	98,726	**20,800**	80,760

The Group's loans 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 at 31 December 2006 are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Luoyang First Motors Company Limited ("LFMC") 洛陽福賽特汽車股份有限公司	Paid up capital of RMB200,000,000	Mainland China	29.5	—	Design, manufacture and sale of vehicles and related accessories
Yituo (Luoyang) Casting & Forging Company Limited ("YLCF")* - note (i) 一拖(洛陽)鑄鍛有限公司	Paid up capital of RMB20,000,000	Mainland China	25	—	Manufacture and sale of casting and forging products

Notes:

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

* The name of the above PRC associate in English is direct translation of its registered name 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.

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

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

	2006	2005
	RMB'000	*RMB'000*
Assets	**291,411**	1,239,813
Liabilities	**232,351**	952,846
Revenues	**467,802**	1,247,737
Loss	**(70,527)**	(43,394)

19. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted equity investments, at fair value	**227,600**	52,600	**197,600**	52,600
Unlisted equity investments, at cost	**25,922**	21,507	**25,663**	19,943
Provision for impairment	**(2,123)**	(2,123)	**(2,123)**	(2,123)
	251,399	71,984	**221,140**	70,420

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 an 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 — 2006	Notes	Gross amount RMB'000	Impartment allowances RMB'000	Net RMB'000
Loans to the Holding	(i)	252,800	2,528	250,272
Loans to associates	(ii)	26,651	533	26,118
Loans to related companies	(iii)	32,760	2,964	29,796
Loans to customers	(iv)	17,781	2,448	15,333
		329,992	8,473	321,519
Portion classified as current assets		(181,811)	(6,991)	(174,820)
Long term portion		148,181	1,482	146,699

Group — 2005	Notes	Gross amount RMB'000	Impartment allowances RMB'000	Net RMB'000
Loans to the Holding	(i)	252,800	2,528	250,272
Loans 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

Notes:

(i) The loans to the Holding are granted by FTGF and are unsecured, bear interest at a rate of 6.3% (2005: 5.76%) per annum and are repayable within one to three years (2005: one to two years).

(ii) The loans to associates are granted by FTGF. These loans are unsecured and bear interest at rates ranging from 6.14% to 7.34% per annum (2005: 5.74% to 6.14% per annum). All loans to associates are repayable within one year.

(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, bear interest at rates ranging from 5.85% to 7.98% per annum (2005: 5.58% to 6.34% per annum) and are 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 (the "PBOC").

20. LOANS RECEIVABLE *(continued)*

The movements of impairment during the year are as follows:

	Group	
	2006	2005
	RMB'000	*RMB'000*
Balance at 1 January	**8,826**	10,864
New provisions charged to the income statement, net	**(353)**	(2,038)
Balance at 31 December	**8,473**	8,826

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	
	2006	2005
	RMB'000	*RMB'000*
Repayable:		
Within three months	**28,360**	68,024
Within one year but over three months	**153,451**	132,510
Within five years but over one year	**146,057**	194,066
Over five years	**2,124**	3,575
	329,992	398,175

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

21. INVENTORIES

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials	**185,257**	113,392	**52,227**	47,567
Work in progress	**248,075**	238,842	**126,312**	138,534
Finished goods	**397,626**	365,336	**115,013**	158,295
Spare parts and consumables	**21,408**	37,657	**16,480**	34,340
	852,366	755,227	**310,032**	378,736

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	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 90 days	**459,454**	220,839	**266,242**	221,292
91 days to 180 days	**192,322**	107,639	**82,482**	55,189
181 days to 365 days	**65,324**	85,303	**10,141**	34,290
1 to 2 years	**22,581**	30,123	**4,580**	4,268
Over 2 years	**5,093**	4,737	**2,691**	—
	744,774	448,641	**366,136**	315,039

At 31 December 2006, certain of the Group's and the Company's bills receivable of RMB 75,282,000 (2005: RMB7,400,000) 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 RMB18,826,000 (2005: RMB8,136,000) and RMB8,729,000 (2005: RMB8,100,000) respectively.

Included in the trade and bills receivables of the Group and the Company are trade receivables from associates aggregating approximately RMB14,043,000 (2005: RMB12,135,000) and RMB12,053,000 (2005: RMB10,687,000) respectively.

Included in the trade and bills receivables of the Company are trade receivables from the subsidiaries of approximately RMB145,595,000 (2005: RMB129,864,000).

23. BILLS DISCOUNTED RECEIVABLE

The bills discounted receivable arose from the Group's financial operations. Included in the bills discounted receivable (net of impairment) of the Group are approximately RMB192,030,000 (2005: RMB56,103,000) related to the Holding; approximately RMB97,238,000 related to an associate as at 31 December 2005; and approximately RMB9,267,000 related to related companies as at 31 December 2005.

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	
	2006	2005
	RMB'000	*RMB'000*
Maturing :		
Within three months	**120,619**	105,697
Within six months but over three months	**101,160**	63,431
	221,779	169,128
Less: Impairment allowance for bills discounted receivable	**(2,218)**	(1,691)
	219,561	167,437

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

	Group	
	2006	2005
	RMB'000	*RMB'000*
Balance at 1 January	**1,691**	1,333
New provisions charged to the income statement, net	**527**	358
Balance at 31 December	**2,218**	1,691

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments, deposits and other debtors	**237,529**	217,632	**122,108**	117,073
Due from the Holding *(note 25)*	**110,304**	23,760	**2,900**	23,652
Prepaid income tax	**1,795**	2,986	**—**	—
	349,628	244,378	**125,008**	140,725

Notes:

(i) Included in other debtors is an amount of RMB15 million (2005: RMB20 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 two years commencing from 15 January 2006. The Company received the first settlement of RMB13,500,000 in 2005 and an impairment allowance of RMB9,220,000 was provided for at 31 December 2005. Thereafter, the securities company commenced its restructuring and since July 2005, it has been under court order protection against the execution of any claim on it until January 2008. 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 a 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 a further impairment allowance of RMB5,000,000 to cover for the overdue instalment during the year ended 31 December 2006 and the accumulated impairment allowance increased to RMB14,220,000 at 31 December 2006.

(ii) Included in other debtors of the Group and the Company are other receivables due from associates totalling approximately RMB2,621,000 (2005: RMB5,076,000). Such balances are unsecured, interest-free and have no fixed terms of repayment.

(iii) Included in other debtors of the Group are other receivables due from minority shareholders of subsidiaries of the Group of approximately RMB24,559,000 (2005: RMB22,703,000). 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

	Group	
	2006	2005
	RMB'000	*RMB'000*
Listed equity securities, at market value:		
Hong Kong	**3,487**	3,576

The above equity investments at 31 December 2006 were classified as held for trading.

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
		2006	2005	**2006**	2005
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances — *note (i)*		**681,382**	416,883	**265,082**	205,154
Mandatory reserve deposits with the PBOC — *note (ii)*		**44,874**	38,362	**—**	—
Time deposits		**162,088**	208,308	**35,452**	77,391
		888,344	663,553	**300,534**	282,545
Less: Pledged time deposits:					
Pledged for bills payable	28	**(105,270)**	(105,570)	**(10,165)**	(58,391)
Pledged for other banking facilities		**(17,170)**	(15,554)	**—**	—
Cash and cash equivalents		**765,904**	542,429	**290,369**	224,154

Notes:

(i) The balance included FTGF's deposits placed with the PBOC and other banks of approximately RMB118,933,000 (2005: RMB52,764,000) and RMB129,514,000 (2005: RMB136,689,000), respectively.

(ii) The balance represents mandatory reserve deposits placed with 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	
	2006	2005
	RMB'000	*RMB'000*
Maturing:		
Within three months	**149,088**	139,308
Within one year but over three months	**13,000**	69,000
	162,088	208,308

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	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 90 days	**853,712**	531,402	**384,108**	346,495
91 days to 180 days	**258,328**	225,677	**105,810**	148,743
181 days to 365 days	**84,578**	40,617	**41,187**	14,734
1 to 2 years	**39,863**	29,446	**11,606**	7,787
Over 2 years	**42,880**	16,846	**11,897**	8,692
	1,279,361	843,988	**554,608**	526,451

The Group's bills payables amounting to approximately RMB241,381,000 (2005: RMB211,375,000) are secured by the pledge of certain of the Group's deposits amounting to approximately RMB105,270,000 (2005: RMB105,570,000).

Included in the trade and bills payables of the Group are trade payables to the Holding of approximately RMB7,266,000 (2005: RMB2,865,000).

Included in the prior year trade and bills payables of the Group and the Company were trade payables to associates totalling RMB8,113,000 and RMB1,840,000, respectively. There were no trade payables to associates included in the trade and bills payables of the Group and the Company for the current year.

29. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2006	2005	**2006**	2005
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Accruals and other liabilities		**386,860**	365,400	**221,550**	288,583
Due to the Holding	25	**108,448**	22,823	**2,900**	—
		495,308	388,223	**224,450**	288,583

Included in other liabilities of the Group are amounts due to the minority shareholders of subsidiaries of the Group of approximately RMB12,891,000 (2005: RMB6,541,000). Such balances are unsecured, interest-free and have no fixed terms of repayment.

Included in other liabilities of the Group and the Company is a receipt in advance from an associate of approximately RMB490,000 (2005: RMB3,772,000).

Included in other liabilities of the Company are receipts in advance from subsidiaries totalling RMB85,670,000 (2005: RMB156,657,000).

30. PROVISIONS

Group	Early retirement benefits	Product warranties	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2006	21,446	12,781	34,227
Provision for the year	621	37,039	37,660
Acquisition of subsidiaries	1,136	61,123	62,259
Amounts utilised during the year	(4,228)	(85,998)	(90,226)
Reversal during the year	(7,018)	—	(7,018)
At 31 December 2006	11,957	24,945	36,902
Portion classified as current liabilities	(3,121)	(24,945)	(28,066)
Non-current portion	8,836	—	8,836

Company	Early retirement benefits	Product warranties	Total
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year	17,868	2,202	20,070
Provision for the year	621	3,106	3,727
Amounts utilised during the year	(3,512)	(1,106)	(4,618)
Reversal during the year	(6,614)	—	(6,614)
At 31 December 2006	8,363	4,202	12,565
Portion classified as current liabilities	(2,091)	(4,202)	(6,293)
Non-current portion	6,272	—	6,272

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 2006 RMB'000	Group 2005 RMB'000
Deposits from the Holding	**85,483**	69,525
Deposits from associates	**1,659**	75,859
Deposits from related companies	**52,775**	28,184
Deposits from customers	**16,897**	25,460
	156,814	199,028

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

	Group 2006 RMB'000	Group 2005 RMB'000
Repayable:		
On demand	**142,230**	195,128
Within three months	**141**	—
Within one year but over three months	**14,443**	3,900
	156,814	199,028

32. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	Group 2006 RMB'000	Group 2005 RMB'000	Company 2006 RMB'000	Company 2005 RMB'000
Current						
Bank loans:						
Secured	5.14%-5.85%	2007	**54,578**	5,500	**—**	—
Unsecured	5.27%-7.96%	2007	**386,980**	166,750	**143,000**	93,590
			441,558	172,250	**143,000**	93,590
Non-current						
Bank loans:						
Secured	6.7%	2010	**74,000**	—	**74,000**	—
Unsecured	6%-6.81%	2008	**46,000**	1,000	**—**	—
			120,000	1,000	**74,000**	—
			561,558	173,250	**217,000**	93,590

	Group 2006 RMB'000	Group 2005 RMB'000	Company 2006 RMB'000	Company 2005 RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**441,558**	172,250	**143,000**	93,590
In the second year	**46,000**	1,000	**—**	—
In the third to fifth years, inclusive	**74,000**	—	**74,000**	—
	561,558	173,250	**217,000**	93,590

All of the above bank loans of the Group and the Company as at 31 December 2006 and 31 December 2005 are under fixed rates and in RMB.

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

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 RMB91,009,000 (2005: RMB18,806,000) *(note 13)*;

(ii) the Holding's certain prepaid land premiums with an aggregate net carrying value of approximately RMB28,151,000 (2005: Nil) ;

(iii) a subsidiary's prepaid land premiums with an aggregate net carrying value of approximately RMB 8,304,000 (2005: Nil) ;

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

(v) guarantees provided by the Holding and YLDC.

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

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

Deferred tax liabilities

Group and Company

	Revaluation of available-for-sale investments *RMB'000*
At 1 January 2006	—
Deferred tax debited to equity during the year	47,850
Gross deferred tax liabilities at 31 December 2006	47,850

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

	2006			
Group	**Losses available for offset against future taxable profit**	**Early retirement benefits**	**Other deductible temporary differences**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006	22,339	5,896	—	28,235
Deferred tax assets arising from acquisition of subsidiaries	—	375	5,154	5,529
Deferred tax credited/(debited) to the income statement during the year *(note 10)*	(14,708)	(3,136)	18,353	509
Deferred tax assets at 31 December 2006	7,631	3,135	23,507	34,273

Company	**Losses available for offset against future taxable profit**	**Early retirement benefits**	**Other deductible temporary differences**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006	22,339	5,896	—	28,235
Deferred tax credited/(debited) to the income statement during the year	(19,589)	(3,136)	15,396	(7,329)
Deferred tax assets at 31 December 2006	2,750	2,760	15,396	20,906

33. DEFERRED TAX *(continued)*

Deferred tax assets *(continued)*

Group and Company	Losses available for offset against future taxable profit	Early retirement benefits	Provisions	Total
	RMB'000	*RMB'000*	*RMB'000*	*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

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	2006	2005
	RMB'000	*RMB'000*
Tax losses	**144,756**	133,177
Assets provision	**43,986**	40,691
Other deductible temporary differences	**17,830**	45,764
	206,572	219,632

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	
	2006	2005
	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 2006 and 2005.

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 on page 66 of the financial statements.

In accordance with the Company Law of the PRC prior to 1 January 2006 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, has been transferred to the reserve fund and enterprise expansion fund, which are restricted as to use.

35. RESERVES *(continued)*

(a) Group *(continued)*

Prior to 1 January 2006, when the PWF was utilised, an amount equal to the lower of the cost of the assets and the balance of the PWF was transferred from the PWF to the general surplus reserve (the "GSR"). The GSR was non-distributable other than in liquidation. On disposal of the relevant assets, the original transfers from the PWF were reversed.

According to the revised Company Law of the PRC effective 1 January 2006, the Company is no longer required to make appropriation from its profit after tax to the PWF. All unutilised PWF as of 1 January 2006 was converted to GSR.

During the year, the subsidiaries' aggregate appropriations to the SSR, the PWF, the reserve fund, and the enterprise expansion fund, as dealt with in the Group's financial statements, were RMB8,753,000 (2005: RMB2,222,000), Nil (2005: RMB1,073,000), RMB348,000 (2005: RMB127,000) and RMB203,000 (2005: Nil), respectively.

The associates' appropriations to each of the SSR and the PWF during the prior year, as dealt with in the Group's financial statements were RMB1,047,000 and RMB524,000, respectively. There were no associates' appropriations to the SSR and the PWF during the current year.

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 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 consolidated retained profits, as explained in note 16 to the financial statements.

35. RESERVES *(continued)*

(b) Company

	Share premium account *RMB'000*	Statutory surplus reserve *RMB'000*	Statutory public welfare fund *RMB'000*	Available-for-sale investment revaluation reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2005	1,378,840	48,388	48,388	—	(258,715)	1,216,901
Profit for the year	—	—	—	—	91,181	91,181
At 31 December 2005 and at 1 January 2006	1,378,840	48,388	48,388	—	(167,534)	1,308,082
Profit for the year	—	—	—	—	99,740	99,740
Changes in fair value of available-for-sale investments	—	—	—	97,150	—	97,150
At 31 December 2006	1,378,840	48,388	48,388	97,150	(67,794)	1,504,972

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 2006, the Company had no retained profits (2005: Nil) available for distribution by way of cash or cash in kind.

As at 31 December 2006, in accordance with the Company Law of the PRC, an amount of approximately RMB1.38 billion (2005: 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. BUSINESS COMBINATION

On 11 May 2006, the Company and the Holding entered into an asset swap agreement, pursuant to which the Company agreed with the Holding to exchange the assets of four casting factories for the 58.8% equity interest in YLDC and 70% equity interest in YLFJ. The consideration for the 58.8% equity interest in YLDC and 70% equity interest in YLFJ exchanged to the Company is RMB154.75 million and RMB43.27 million, respectively; the consideration of the assets of the four casting factories exchanged out by the Company was RMB158.24 million. The net consideration of approximately RMB39.78 million payable by the Company to Holding pursuant to such asset swap was satisfied in the form of cash paid by the Company in August 2006, and the asset swap was completed in August 2006. Brilliance China Machinery Holding Limited, a 90.1%-owned subsidiary of the Company, held a 25% equity interest in YLDC. The Company's equity investment in YLFJ was 7%. Upon completion of the asset swap, the Group held an effective equity interest of 81.3% in YLDC. For YLFJ, the Company and YLDC held an equity interest of 7% and 18% therein respectively and upon the completion of the asset swap, the Group effectively held an effective interest of 91.6% in YLFJ. YLDC and YLFJ have become the subsidiaries of the Company since then.

36. BUSINESS COMBINATION *(continued)*

The fair value of the identifiable assets and liabilities of YLDC and its subsidiary ("YLDC Group") and YLFJ acquired as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

		YLDC Group		YLFJ	
		Fair value recognised on acquisition	**Carrying amount**	**Fair value recognised on acquisition**	**Carrying Amount**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	13	181,516	171,457	62,609	52,279
Construction in progress	14	36,745	36,745	23,818	23,818
Available-for-sale investments		60,945	60,480	—	—
Inventories		106,353	97,432	18,415	18,415
Trade and bills receivables		336,104	336,104	12,466	12,466
Deferred tax assets		2,938	2,938	2,592	2,592
Cash and bank balances		88,546	88,546	2,650	2,650
Other receivables		100,715	100,715	28,563	28,563
Trade and bills payables		(287,216)	(287,216)	(14,029)	(14,029)
Other payables and accruals		(87,760)	(87,760)	(19,923)	(19,923)
Provisions		(61,124)	(61,124)	(1,135)	(1,135)
Interest-bearing bank borrowings		(214,350)	(214,350)	(52,000)	(52,000)
Tax payable		(18,739)	(18,739)	(4,232)	(4,232)
Pre-acquisition profit entitled by the seller		(32,867)	(32,867)	(2,068)	(2,068)
Minority interests		(39,615)	(36,465)	(2,989)	(2,473)
Fair value/carrying value of net assets at date of acquisition		172,191	155,896	54,737	44,923
Goodwill on acquisition	16	*50,485		2,505	
		222,676		57,242	
Satisfied by:					
Cash		31,088		8,692	
Assets of four casting factories		122,720		34,314	
Interests in associates		64,065		—	
Available-for-sale investments		—		12,892	
Direct costs		4,803		1,344	
		222,676		57,242	

* The goodwill of RMB50,485,000 comprises the fair value of expected synergies arising from the acquisition and a customer list, which is not separately recognised. Due to the contractual terms imposed on acquisition, the customer list is not separable and therefore does not meet the criteria for recognition as an intangible asset under HKAS 38 Intangible assets.

36. BUSINESS COMBINATION *(continued)*

The assets of the four casting factories, interests in associates and available-for-sale investments mentioned in the above analysis of the consideration represented their respective carrying values, which approximate to their fair value, upon completion of the asset swap.

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of above subsidiaries are as follows:

	RMB'000
Cash consideration	39,780
Direct costs incurred	6,147
Cash and bank balances acquired	(91,196)
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(45,269)

Since their acquisition, YLDC Group and YLFJ contributed RMB350.49 million and RMB48.71 million to the Group's turnover respectively and a profit of RMB3.74 million and a loss of RMB0.43 million to the consolidated profit respectively for the year ended 31 December 2006.

Had the combination of YLDC and YLFJ taken place at the beginning of the year, the turnover of the Group and the profit of the Group for the year would have been RMB7.07 billion and RMB153.76 million, respectively.

In December 2005, the Company entered into a capital injection agreement with Yituo (Luoyang) Transportation Machinery Co., Ltd. ("YLTM"), whereby the Company agreed to inject capital of RMB50,880,000 in the form of cash and other assets into YLTM. Before the aforesaid capital injection, the registered capital of YLTM was RMB5 million and the Holding held a 73.836% equity interest in YLTM, while the remaining 26.164% equity interest was held by certain individuals. 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 individuals. YLTM engages in the manufacture and sale of transportation machinery. YLTM holds a 70% equity interest in Yituo (Luoyang) Fork Lift Trading Company Limited ("YLFT"). In January 2006, the Company injected capital of RMB19.2 million in the form of cash into YLTM and hence owned a 79.3% equity interest in YLTM. Thereafter, YLTM and its subsidiary, YLFT (collectively the "YLTM Group") became subsidiaries of the Group. The remaining capital injection of RMB31.7 million, which will be in form of non-cash assets has not been completed at the date of financial statements.

36. BUSINESS COMBINATION *(continued)*

Details of the assets and liabilities of the YLTM Group immediately before the capital injection were as follows:

	Notes	**Carrying amount** *RMB'000*
Property, plant and equipment	13	375
Construction in progress	14	322
Cash and bank balances		1,725
Trade and bills receivables		1,052
Other receivables		1,986
Inventories		7,948
Trade and bills payables		(8,883)
Other payables and accruals		(608)
Interest-bearing bank borrowings		(500)
Minority interests		(184)
		3,233
Satisfied by minority interest		3,233

The above carrying amounts of the assets and liabilities of YLTM Group approximate to their fair values.

Since its acquisition, YLTM Group contributed RMB36,958,000 to the Group's turnover and reduced the Group's consolidated profit after tax by RMB2,977,000 for the year ended 31 December 2006.

Had the acquisition taken place alone at beginning of the year, the turnover of the Group and the profit of the Group for the year would have been RMB6.1 billion and RMB72.2 million respectively.

The Group owned a 32% equity interests in LQSC. LQSC is engaged in the manufacture and sale of steel and forging products for the use in production of diesel engines. Since the Group has no significant influence on LQSC and thus, such investment was recognised in the Group's prior year consolidated financial statements as an available-for-sale investment.

36. BUSINESS COMBINATION *(continued)*

In December 2005, certain shareholders of LQSC agreed to confer the voting rights to YBMC, a subsidiary of the Group, such that YBMC secured voting rights exceeding 50% of the voting rights eligible to be cast in the shareholders' meeting of LQSC and hence YBMC has gained control over LQSC. In this regard, LQSC was consolidated by the Group in preparation of the financial statements starting from 1 January 2006.

The assets and liabilities of LQSC as at the date of consolidation were as follows:

	Note	Carrying amount *RMB'000*
Property, plant and equipment	13	6,987
Inventories		17,006
Trade and bills receivables		6,745
Cash and bank balances		534
Other receivables		4,124
Trade and bills payables		(7,755)
Other payables and accruals		(23,225)
Tax payable		(137)
Minority interests		(2,973)
		1,306
Satisfied by available-for-sale investments		1,306

36. BUSINESS COMBINATION *(continued)*

The above carrying amounts of the assets and liabilities of LQSC approximate to their fair values.

Since the date of acquisition, LQSC contributed RMB47.6 million to the Group's turnover and RMB1.6 million to the Group's profit for the year ended 31 December 2006.

Had the acquisition taken place at beginning of the year, the turnover of the Group and the profit of the Group would have been RMB6.1 billion and RMB72.2 million respectively.

37. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

The non-cash consideration was made by the Company and China Yituo under the assets swap agreement on 11 May 2006, pursuant to which the Company agreed with China Yituo to exchange the assets of the four casting factories at an aggregate consideration of RMB158.24 million for the 58.80% equity interest in YLDC and 70% equity interest in YLFJ at a consideration of RMB154.75 million and RMB43.27 million respectively.

The net consideration payable by the Company to China Yituo pursuant to the assets swap agreement of approximately RMB39.78 million was settled in form of cash.

Such assets swap was completed in August 2006.

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 21% to 23% (2005: 20% to 24%) 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

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

(a) As at 31 December 2006, FTGF, a subsidiary, had given guarantees to the extent of RMB100 million (2005: RMB100 million) to certain financial institutions for securing the loans granted to the Holding. As at 31 December 2006, the aforesaid loans of the Holding was drawdown to RMB100 million (2005: RMB100 million).

(b) As at 31 December 2006, ZHHRM, a subsidiary of the Group, had provided a guarantee to the extent of RMB20 million (2005: RMB20 million) to a bank for securing the loan granted to a customer of the Group.

As at 31 December 2006, the Company had given corporate guarantees of approximately RMB252.6 million (2005: RMB319.2 million) and RMB216.4 million (2005: RMB122.9 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 RMB469 million (2005: RMB442.1 million). The fair values of such guarantees have been recognised in the Company's balance sheet. See note 2.2(a) to the 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 certain assets of the Group, are included in notes 28 and 32 to the financial statements, respectively.

41. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its buildings and machinery (note 13) 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 2006, 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	
	2006	2005
	RMB'000	*RMB'000*
Within one year	**3,751**	5,390
In the second to fifth years, inclusive	**6,394**	13,707
	10,145	19,097

(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 2006, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		**Company**	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**12,700**	6,453	**6,017**	6,000
In the second to fifth years, inclusive	**26,766**	23,760	**21,000**	22,000
After five years	**191,356**	195,508	**177,397**	181,795
	230,822	225,721	**204,414**	209,795

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	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted, but not provided for:				
Additional capital contribution into a subsidiary	**—**	—	**31,721**	—
Purchases of plant and machinery	**103,720**	92,129	**84,705**	91,071
Investment in a joint venture	**—**	50,880	**—**	50,880
	103,720	143,009	**116,426**	141,951
Authorised, but not contracted for:				
Purchases of plant and machinery	**93,549**	170,186	**65,540**	170,186
Additional capital contribution into a subsidiary	**—**	—	**159,075**	159,075
Investments in joint ventures	**16,000**	9,360	**16,000**	9,360
	109,549	179,546	**240,615**	338,621
	213,269	322,555	**357,041**	480,572

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	**2006** **RMB'000**	2005 RMB'000
Sales of raw materials, finished goods and components	(i)	**533,119**	362,079
Purchases of raw materials and components	(i)	**668,991**	464,774
Purchases of utilities	(ii)	**132,466**	107,722
Fees paid for welfare and support services	(iii)	**18,087**	34,994
Purchases of transportation services	(iii)	**38,381**	19,537
Research and development expenses paid	(iv)	**35,312**	8,300
Fees paid for the use of land	(v)	**5,000**	5,000
Fees paid for the use of a trademark	(vi)	**11,230**	8,300
Rentals paid in respect of:			
Buildings	(vii)	**1,838**	1,628
Plant and machinery	(vii)	**94**	4,371
Rental income received in respect of:			
Buildings	(viii)	**4,980**	1,380
Plant and machinery	(viii)	**980**	1,400
Sales of plant and machinery	(ix)	**362**	4,800
Purchases of plant and machinery	(x)	**5,633**	6,226
Interest income, inclusive of discounted bill charges	(xi)	**26,949**	27,257
Interest paid for customer deposits	(xii)	**678**	585
Service charge for a guarantee	(xiii)	**1,435**	260

The transactions disclosed above included the significant transactions carried out between the Group and YLDC (which is also a subsidiary of the Holding) and YEMC (in which YLDC holds a 50% interest) for the period from 1 January 2006 to 31 July 2006. This is because YLDC and YEMC became the subsidiaries of the Group since the assets swap transaction was completed in August 2006. In addition, the transactions disclosed above also included the transactions between the Group and an associate, YLCF (in which the Holding holds a 50% equity interest.)

43. RELATED PARTY TRANSACTIONS *(continued)*

(a) Particulars of the significant transactions carried out between the Group, YLDC, YEMC and YLCF, which are included in the transactions disclosed above, are summarised as follows:

	Notes	2006 RMB'000	2005 RMB'000
Sales of raw materials and components	(i)	**170,916**	173,010
Purchases of raw materials and components	(i)	**216,191**	190,812
Rental income received in respect of :			
Buildings	(viii)	**980**	1,380
Plant and machinery	(viii)	**980**	1,400
Interest income, inclusive of discounted bill charges	(xi)	**2,225**	4,973
Interest paid for customer deposits	(xii)	**37**	66

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

	Notes	2006 RMB'000	2005 RMB'000
Sales of raw materials and components	(i)	**10,472**	8,772
Purchases of raw material and components	(i)	**—**	1,651
Interest paid for customer deposits	(xii)	**43**	794

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	2006 RMB'000	2005 RMB'000
Sales of finished goods and components	(xiv)	—	9,704
Purchases of raw materials and components	(xiv)	**167**	1,145
Fees paid for the use of a trademark	(xv)	**300**	400
Rentals paid in respect of:			
Land	(xiv)	**920**	920
Buildings	(xiv)	**10**	125
Fees paid for support services	(xiv)	—	100
Fees income received from support services	(xiv)	**735**	—
Management fees paid	(xiv)	**200**	200

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 does not exceeded 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 does not exceeded the price charged in the immediate preceding year increased by a percentage equal to certain PRC consumer price indexes, whichever is lower.

43. RELATED PARTY TRANSACTIONS *(continued)*

(a) *Notes: (continued)*

(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 does not exceeded the price charged in the immediately preceding year increased by a percentage equal to certain PRC consumer price indexes, whichever is lower. Included in the welfare and supporting services fee in 2005 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 on the basis that such one-off expense is equally borne by the Company and the Holding. There was no such one-off expense in 2006.

(iv) Pursuant to relevant agreements, the pricing in respect of routine research and development services is calculated at a rate of 0.2% (2005: 0.2%) of the Company's net annual turnover. Included in the research and development expense was an amount of RMB25.4 million paid to the Holding's subsidiary, according to the contracted amount.

(v) Pursuant to relevant agreements, the annual rental for the use of land is RMB5 million (2005: 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 a trademark is charged at a rate of 0.2% (2005: 0.2%) of the Company's net annual turnover.

(vii) Pursuant to relevant agreements, the rentals of buildings and plant and machinery were charged with reference to the depreciation of the relevant assets.

(viii) Pursuant to relevant agreements, the rental income of buildings and plant and machinery received is mutually agreed with the related parties.

(ix) The sales of plant and machinery were conducted on mutually agreed terms.

(x) The purchases of plant and machinery were 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 were 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 were conducted with reference to the terms and rates stipulated by the PBOC.

43. RELATED PARTY TRANSACTIONS *(continued)*

(a) *Notes: (continued)*

(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 Mainland China.

(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 RMB300,000 for the year of 2006.

(b) Other transactions with related parties

(i) Designated deposits and designated loans

As at 31 December 2006, the Holding placed a designated deposit of RMB10 million (2005: RMB3.8 million) in FTGF for lending to YLCF.

As at 31 December 2006, Yituo International Commerce Company Limited, a subsidiary of the Holding, placed a designated deposit of RMB2 million (2005: RMB2 million) 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.

(ii) Guarantees provided by the Group to related parties

As at 31 December 2006, FTGF provided guarantees to the extent of RMB100 million (2005: RMB100 million) to certain financial institutions for securing loans granted to the Holding.

(iii) Guarantees provided by related parties to the Group

At 31 December 2006, the Holding provided a guarantee to the extent of RMB124 million (2005: RMB100 million) to a bank for securing the banking facilities granted to the Company. As at 31 December 2006, the aforesaid banking facilities were utilised to the extent of RMB124 million. (2005:RMB30 million)

43. RELATED PARTY TRANSACTIONS *(continued)*

(c) Outstanding balances with related parties:

(i) Details of the Group's amount due from/to the Holding, its loans and deposit 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 notes 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:

	2006	2005
	RMB'000	*RMB'000*
Short term employee benefits	**1,058**	957
Post-employment benefits	**239**	230
Total compensation paid to key management personnel	**1,297**	1,187

Further details of directors' emoluments are included in note 8 to the financial statements.

(e) Asset swap transaction

On 11 May 2006, the Company entered into an assets swap agreement, pursuant to which the Company agreed with China Yituo to exchange the assets of four casting factories at an aggregate consideration of RMB158.24 million for the 58.80% equity interest in YLDC and the 70% equity interest in YLFJ at a consideration of RMB154.75 million and RMB43.27 million respectively. Upon completion of the asset swap transaction in August 2006, the net consideration payable by the Company to China Yituo pursuant to the assets swap agreement was approximately RMB39.78 million.

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 operations 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 provisions for uncollectible receivables have been made in the financial statements. In this respect, the board of directors considered that the credit risk is significantly reduced.

The Group's trade receivables relate to a large number of diversified customers, 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 for formulating credit policies and determining the cap of facilities, and each credit transaction is subject to a collective consideration and approval under conservative and prudent policies. The auditing department of FTGF is responsible for supervision over the implementation of the credit approving system and post-credit inspection system.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk *(continued)*

For the significant concentration of credit risk relating to the Group's loans receivable, please refer to note 20 to the financial statements.

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 Mainland China. While most of the transactions are conducted in RMB, the Group does not have significant exposure on foreign currency risk. As at 31 December 2006, the Group had short term deposits denominated in United States dollars and Hong Kong dollars of approximately RMB45,971,000 (2005: RMB21,647,000) and RMB27,787,000 (2005: RMB47,456,000), 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 monitors its interest rate risk on a regular basis and makes 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 average interest rates at 31 December for monetary financial instruments:

	2006 Rate %	2005 Rate %
Assets		
Cash and cash equivalents	**0.99%-1.89%**	0.72% - 2.48%
Loans receivable	**5.27%-8.23%**	4.95% - 6.91%
Liabilities		
Customer deposits	**0.72%-3.06%**	0.72% - 2.70%
Interest-bearing bank borrowings	**5.14%-7.96%**	4.80% - 6.98%

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

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the future financial impact of the New Corporate Income Tax Law on the Group cannot be reasonably estimated at this stage.

46. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new HKFRSs 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 20 April 2007.