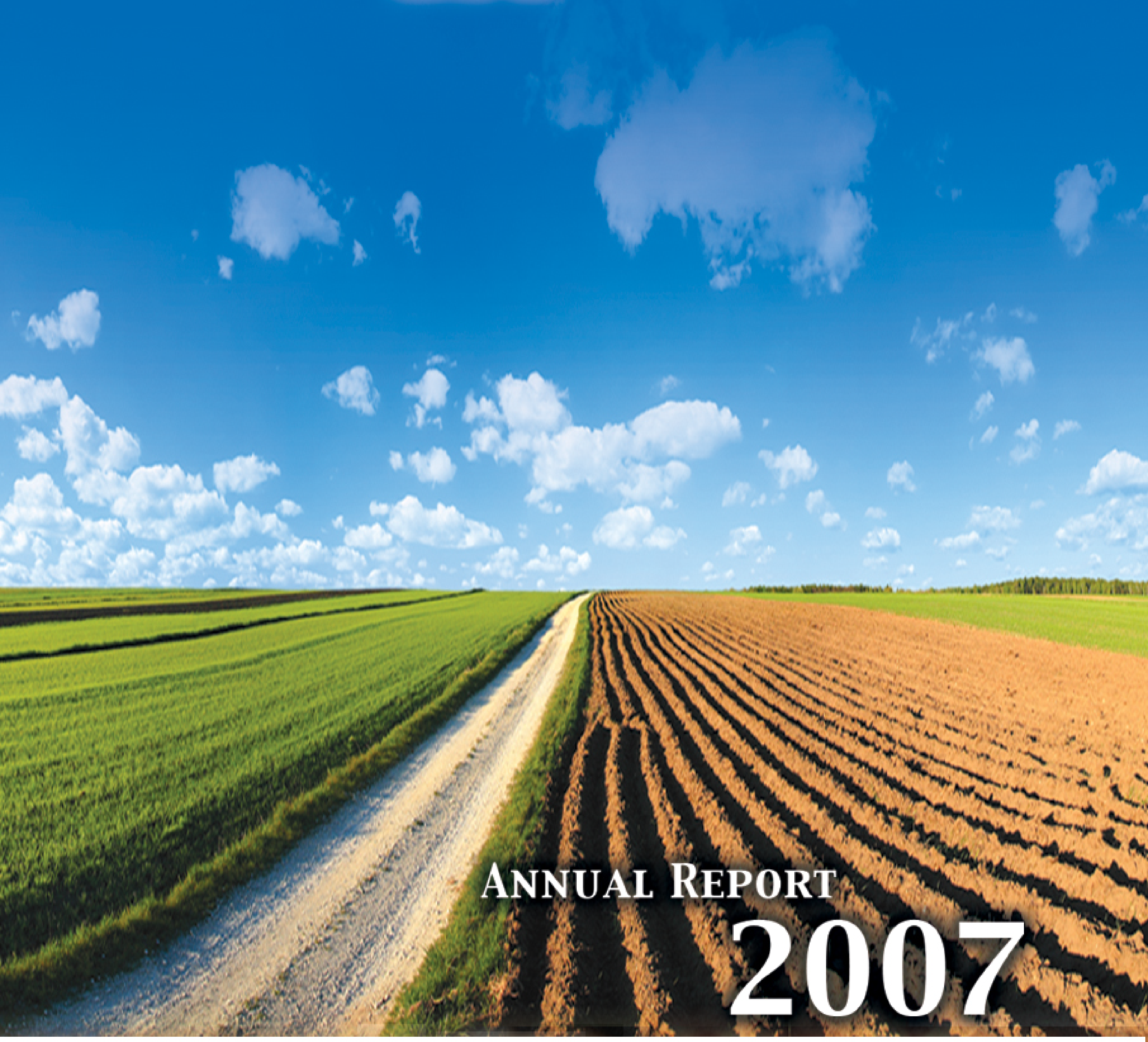
第一拖拉机股份有限公司

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 2007

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第一拖拉机股份有限公司
FIRST TRACTOR COMPANY LIMITED

Pioneer** in Agriculture • Benefits the **Populace

CORPORATE INFORMATION

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First Tractor Company Limited

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BUSINESS REGISTRATION NUMBER
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LEGAL REPRESENTATIVE OF THE COMPANY
Liu Dagong

COMPANY SECRETARY AND HEAD OF INVESTOR RELATIONS DEPARTMENT
Yu Lina

AUTHORISED REPRESENTATIVES
Liu Wenying
Yu Lina

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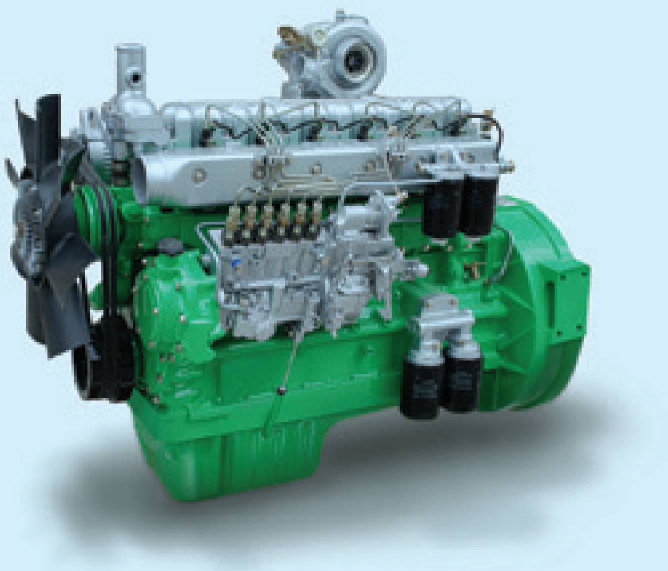


FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2007	2006
	RMB'000	RMB'000
REVENUE	**6,775,434**	6,101,451
Finance costs	**(31,589)**	(16,593)
Share of profits and losses of associates	**(12,649)**	1,827
PROFIT BEFORE TAX	**237,804**	87,467
Tax	**(40,024)**	(15,251)
PROFIT FOR THE YEAR	**197,780**	72,216
Attributable to:		
Equity holders of the parent	**181,762**	72,849
Minority interests	**16,018**	(633)
	197,780	72,216
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – Basic	**RMB22.82 cents**	RMB9.28 cents

CORPORATE STRUCTURE

First Tractor Company Limited

- 90.1% Brilliance China Machinery Holdings Limited
  - 51% YTO (Luoyang) Construction Machinery Co., Ltd.
- 49% YTO (Luoyang) Construction Machinery Co., Ltd.
- 93.91% YTO (Luoyang) Harvester Co., Ltd.
- 73% YTO (Luoyang) Agriculture Tool Co., Ltd.
- 60% YTO (Luoyang) Shenyang Tractor Co., Ltd.
- 99% Luoyang Changlun Agricultural Machinery Co., Ltd.
  - 8.33% Luoyamg Changhong Trading Co., Ltd.
- 91.67% Luoyamg Changhong Trading Co., Ltd.
  - 30% Luoyamg Changxing Agricultural Machinery Co., Ltd.
- 70% Luoyamg Changxing Agricultural Machinery Co., Ltd.
- 87.8% China YTO Group Finance Co., Ltd.
- 91.05% YTO (Luoyang) Transporter Machinery Co., Ltd.
- 35% YTO (Luoyang) Building & Construction Machinery Co., Ltd.
- 50% YTO (Luoyang) Shentong Construction Machinery Co., Ltd.

51% — 49% YTO (Luoyang) Building Machinery Co., Ltd.

59% — Zhenjiang Huachen Huatong Road Machinery Co., Ltd.

59% — Zhenjiang Huatong Aran Machinery Co., Ltd.

51.1% YTO (Luoyang) Lutong Construction Machinery Co., Ltd.

42% YTO (Luoyang) Engine Machinery Co., Ltd.

50%

YTO (Luoyang) Diesel Co., Ltd. — 25% — 58.8%

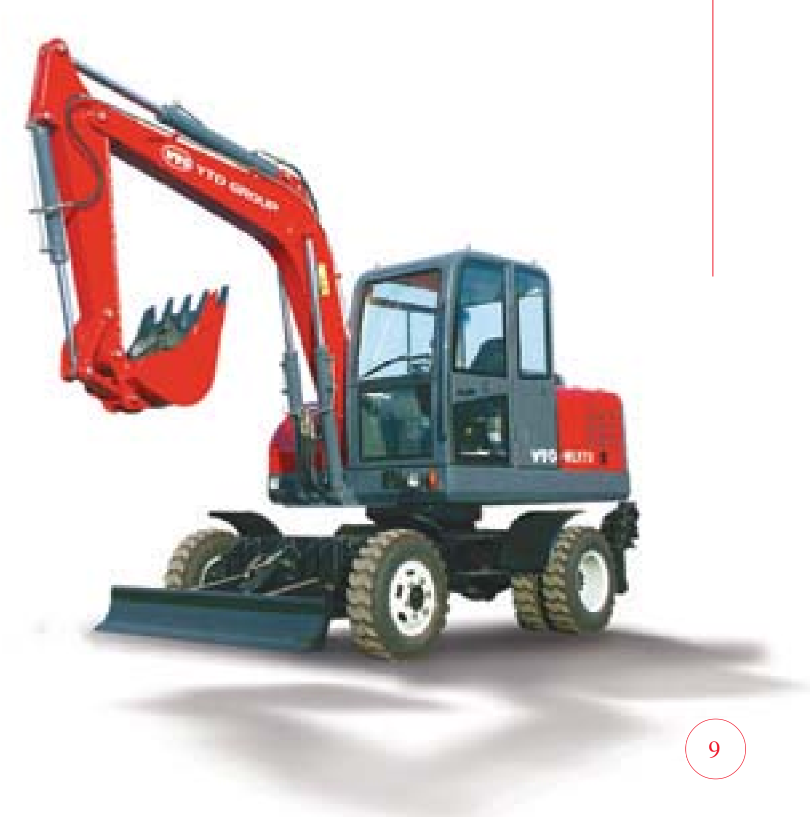
77% YTO (Luoyang) Fuel Pump Co., Ltd.

100% YTO (Xinjiang) DongFangHong Machinery Co., Ltd.

39.6% Shanghai Dragon (Group) Co., Ltd.

40% YTO Shunxing (Luoyang) Spare Parts Co., Ltd.

40% YTO (Luoyang) Construction Machinery Sales Co., Ltd.



CHAIRMAN'S STATEMENTS

Liu Dagong

To shareholders,

On behalf of the board of directors (the "Directors") of First Tractor Company Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (the "Group") to all shareholders for the year ended 31 December 2007 and take this opportunity to deliver sincere thanks to all shareholders who support the Company.

For the year ended 31 December 2007 (the "Reporting Period"), the Group recorded a total turnover of RMB6,775,434,000, representing an increase of 11.04% over the same period last year. Earnings attributable to ordinary equity holders of the parent was RMB181,762,000, representing an increase of 149.5% and RMB108,913,000 over the same period last year. Earnings per share was RMB22.82 cents, representing an increase of RMB13.54 cents over the same period last year.

BUSINESS REVIEW

In 2007, China maintained a prudent fiscal and monetary policy and national economic development remained steady and rapid. GDP grew by 11.9% over the same period last year and fixed assets investment recorded a year-on-year increase of 24.8%. Thanks to the continuous and rapid growth of national economy, China's agricultural machinery industry and construction machinery industry also maintained certain growth.

In respect of agricultural machinery, the State continued to attach great importance on the problems of "agriculture, countryside, farmers" during the Reporting Period by introducing a series of policies for the purpose of supporting and providing favorable treatment to agriculture. As a result, total volumn of agricultural machinery equipment increased constantly and the consolidated mechanization level of tilling, planting and harvesting in China increased by 1.7 percentage points to 41% from last year. Agricultural mechanization level progressed from an early stage to a middle stage. Agricultural machinery industry, after four consecutive years of rapid growth, witnessed a slowdown with adjustment at high level in 2007. According to statistics of tractor industry, the sales volume of large wheeled tractors and medium wheeled tractors increased by 10.5%. The level of increase was down 23.6 percentage points in which the increase in sales volume of large wheeled tractors, medium wheeled tractors and small wheeled tractors were down 10.1%, up 16% and down 5.4% respectively. Owing to the market saturation, the sales volume of wheat harvesting machines decreased over 60% as compared with the same period last year. In 2007, the Group sold a total of 44,239 large and medium wheeled tractors, representing a decrease of 3.14% over the same period last year; in which sales volume of large wheeled tractors, medium wheeled tractors, small wheeled tractors and wheat harvesting machines were 23,058, 18,261, 95,065 and 1,148, representing a decrease of 7.9%, an increase of 6.7%, a decrease of 3.6% and a decrease of 61.3% respectively. Thanks to the satisfactory outcome of the adjustment in product structure, turnover generally remained unchanged and operating results increased despite a decrease in sales volume.

In respect of construction machinery, infrastructure construction and investment by the State also promoted the rapid development of construction machinery industry during the Reporting Period, and a relatively sharp increase of exported products of construction machinery was also seen. Due to the adjustment of product structure and the seizing of market opportunities, the Group sold 10,673 units of different types of construction machinery products, representing an increase of 11.9% as compared with the same period last year. Turnover increased by 23.5% as compared with the same period last year. The operating results generally remained unchanged and was not restored from loss to profitability.

The engine machinery business was integrated into the Group in August 2006. The Group obtained a more satisfactory operating results with a total of 82,077 diesel engines in various types sold in 2007, of which 31,945 units were sold as ancillary products of major machinery of the Group, representing 38.9% of the total sales volume.

CHAIRMAN'S STATEMENTS

During the Reporting Period, the international business of the Group retained substantial growth. By strengthening the establishment of international sales and marketing network as well as the after-sales service system and optimizing the structure of exported products, the volume of exports of the Group achieved US$79,168,000, representing a growth of 87.9% as compared with the same period last year. 2,992 units of large and medium wheeled tractors and 893 units of construction machinery were exported, representing a growth of 30% and 114% respectively as compared with the same period last year.

As China's principal agricultural machinery manufacturer, the Group continued to reinforce and enhance the core abilities of the enterprise by insisting on technological innovation and improvement, aspiring to foster the advancement of and improvement on technology and provide advanced technological equipment for agricultural development. During the Reporting Period, the Group input RMB138,873,000 for research and development, representing an increase of 112% as compared with the same period last year. Furthermore, the Group initiated 90 research projects, of which 32 were completed, which provided support for sustainable development of the agricultural machinery business of the Group. Among the research projects, the 180 horsepower wheeled tractors which have been successfully developed were permitted to sell in the market in bulk and broke the convention that companies can solely depend on imports for tractors with high horsepower.

During the Reporting Period, "东方红" tractor was awarded the title of "China famous brand" (中國名牌) and recognized as "Most competitive brand in the market" (最具市場競爭力品牌) by the Ministry of Commerce of the PRC. Products such as tractors, harvesting machines, road rollers and diesel engines were granted the title of "State-designated Products Exempted From Quality Surveillance Inspection" (國家免檢產品) by the State Quality Inspection Bureau. " YTO " was awarded the "Recommendable Brand of Export" （推薦出口品牌） by China Chamber of Commerce for Imports & Exports of Machinery and Electronics Products.

In October 2007, the Company implemented the placing of H shares and raised proceeds of approximately RMB222,000,000. The proceeds were principally used for technological renovation of large and medium wheeled tractors of the Group.

BUSINESS PROSPECT

Looking ahead in respect of the Group's future business development, there will be opportunities and challenges at the same time, particularly opportunities. Internationally, economic globalization adjustment of industrial structure and acceleration of technology updates, adding international industrial upgrades on one hand, will bring development opportunities for the Company. On the other hand, the Company will face critical challenges and need to adapt to new trends, which will quicken the pace of corporate technological improvement and the progress of internationalization of management standard, and will constantly elevate the capability and level of participation in international competition. Domestically, on one hand, the State will implement and improve the policy of "agriculture, countryside, farmers", develope modern agriculture and fostere construction of socialistic new countryside. The agricultural industry is facing a period full of "prime development" opportunities, which provides ample room for development of agricultural machinery, construction machinery and supplementary engine machinery business for the Group. Investment in sizable infrastructure such as electricity, transportation, telecommunication and energy saving and emission reduction will effectively drive the growth of construction machinery and engine machinery business. On the other hand, the State carried out stringent monetary policies, which results in, the manufacturing industry facing disadvantages such as tight supply of funding and soaring prices of energy and raw materials. As such, the Group needs to capture opportunities, face up challenges, have a full grasp of what comes ahead and respond correctly.

In 2008, the Group will unswervingly take structural adjustment as paramount and focus on building up its core capability, roll on to improve quality management, cost management, procurement management and sales and marketing management through innovations in technological, management, system and culture so as to elevate competitive edges and sustain the stable growth of operating results.

Agricultural machinery: further investing in research and development and strengthening the construction of autonomous innovation ability. To cater for domestic and international market demand, accelerate the development process of high-tech, highly functional and highly valued-added products so as to maintain its leading position in the national industry. **Implementing brand strategy to elevate competitive advantages.** The product quality and technological function of tractors with high to mid horsepower should be constantly lifted and tractors with low horse power will undergo proactive product upgrades and technological renovation. Meanwhile, the Company will enhance national and overseas market expansion to increase market share of the Group's products. **Accelerating structural adjustment of products whilst reinforcing the effect of corporate development.** For harvesting machinery business, industrial resources need to be integrated to enhance product quality and technological level and product series expanded so as to quickly attain market breakthroughs and aspire for better profitability. Business of agricultural machinery and tools should undergo rapid technological advancement of products through introduction of new technology, joint ventures and collaboration as well as autonomous research and development, thereby creating new points of economic growth.

CHAIRMAN'S STATEMENTS

Construction machinery: putting more effort in the integration of internal and external resources and enhancing utilization rate of resources. Refining development plans of core products such as road rollers and bulldozers. Focusing on direction of funding, forging and boosting competitive edges so as to be a leader in the industry. Accelerating the construction of small construction machinery and transportation machinery. Keep track of the movement of market pioneers endeavouring to catch up with leaders in the industry while integrating and reorganizing products with less competitive advantages in line with the requirements under new directions on a demonstrable basis.

Engine machinery: responding to need of technological requirements of power upgrades and energy saving of diesel machines not used for road machineries. As such, the Group will focus on the implementation of the technological renovation project of heavy power duty diesel machines through pioneering initiatives on technological and management, so as to promote such technological upgrades as energy saving, reduction of emission, vibration and noise elimination, to foster improvement of products in line with high mobility, high economic efficiency and low emission. Besides, the Group will further effort to strengthen the adjustment of the market structure. While satisfying the need of ancillary of major machinery and maintaining the prime positions of the Group in machinery ancillary not used for roads, the Group will take initiative to expand the new ancillary market.

Financial business: endeavors will be made to centralize funding and enhance its utilization rate and to ensure the promotion of buyers' credit and financial lease business of the Group's products so as to support the product sales of the Group, while meeting the precondition of ensuring sufficient funding for industrial development, production and operation of the Group.

International business: In 2008, the Company will proceed to consolidate the expansion of strategic regions in the international market, further perfect market segmentation and product adaptability, optimize structure of exports, reinforce its collaboration with overseas distributors, improve sales and marketing network and the service system after sales, so as to keep elevating international sales and marketing competence and ensure sustainable rapid growth in exports.

In 2008, YTO Group Corporation Limited ("YTO Group"), the controlling shareholder of the Company, joined China National Machinery Industry Corporation ("China National Machinery"). China National Machinery is one of the 152 central enterprises governed by State-owned Assets Supervision and Administration Commission of the State Council and a consolidated sizable enterprise group with the largest scale and the greatest strength in the field of machinery equipment in China at present. Its principal business includes the research and development of high and new technologies and material equipment, industrialization of technological achievement and the manufacturing of machinery equipment and machinery and electrical products, consultancy, design, construction and supervision of national and international substantial construction, setting up of equipment and underwriting of construction, international and national trading of machinery and electrical as well as motor products. It is particularly well positioned in resources and conditions in terms of the technological research and development as well as export sales. The strategic reorganization conducted by China National Machinery and YTO Group, has provided a good chance for the Group to further enhance its edges in research and development and expansion of international business. The Group will take this as an opportunity to seek integration of business and resources and further elevate its competitiveness.

The Company will actively response to the changing environment of macroeconomics, absorb advanced management concept and experience, innovate management model and earning model, standardize corporate governance and promote healthy development of the Company.

The Board of the Company believes that the management of the Company is able to lead all employees, with concerted efforts, to actively press ahead the Company's business development, constantly improve the operating results of the Company and reward the shareholders and the society.

ACKNOWLEDGEMENT

Finally, I hereby take this opportunity to express my sincere gratitude to all shareholders, all walks of life and customers 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
18 April 2008

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS ANALYSIS:

During the Reporting Period, the Group recorded a turnover of RMB6,775,434,000, representing an increase of 11.04% over the same period last year, Such increase of turnover was mainly attributable to the expansion of construction machinery business and the integration of engine machinery business. Profit attributable to equity holders at the Parent was RMB181,762,000, representing an increase of RMB108,913,000 over last year. Profit was mainly contributed by the agricultural machinery business and the engine machinery business. Consolidated gross profit margin was 11.8%, representing an increase of 2.1 percentage points. Exports recorded US$79,168,000, representing a year-on-year growth of 87.9%, in which the agricultural machinery and construction machinery businesses recorded growth by 68.6% and 102% respectively over the same period last year. Net return on assets was 7.2%, which increased by 4 percentage points.

Table of turnover and results of the Group during the Reporting Period by segment (Segment results are set out in note 4 to the financial statements)

	Analysis of Turnover			Analysis of Results		
By segment	2007	2006	% of change over last year	2007	2006	% of change over last year
	RMB'000	*RMB'000*		***RMB'000***	*RMB'000*	
Agricultural machinery business	**4,666,285**	4,699,191	(0.70)	**113,110**	148,020	(23.58)
Construction machinery business	**1,480,082**	1,198,603	23.48	**(69,650)**	(72,642)	(4.12)
Engine machinery business *(Note)*	**629,067**	203,614	208.95	**89,300**	(1,179)	N/A
Financial Business	**—**	—	—	**26,802**	35,112	(23.67)
Others	**—**	43	(100)	**(139)**	(4,609)	(96.98)
Total	**6,775,434**	6,101,451	11.05	**159,423**	104,702	52.26

Note: As the engine machinery business was integrated into the Group in August 2006, only the turnover and operating results from August to December in 2006 were taken into account.

In 2007, the turnover of agricultural machinery, construction machinery and engine machinery represented 68.87%, 21.84% and 9.28% of the Group's turnover respectively.

Agricultural machinery business

During the Reporting Period, in light of the growth slowdown of domestic agricultural machinery market, the feature of adjustment at high levels as well as the pressure arising from constant price hike of raw materials and energy, the Group furthered the structural adjustment of products and the market, focused on improving internal management and realized a turnover of RMB4,666,285,000, which remained basically the same as last year furthered; Consolidated gross profit margin was 10%, representing an increase of 0.57 percentage points over the same period last year; Operating results was RMB113,110,000, representing a decrease of RMB34,910,000 over last year. During the Reporting Period, investment in research and development increased by RMB36,880,000 and consultancy fees increased by RMB12,500,000 over the same period last year. Upon analysis of fees above, the operating results of agricultural machinery business actually increased by 11.3%, firstly attributable to optimization of the product structure which reinforced the sales of high value-added products. The sales volume of 90 above horsepower large wheeled tractors amounted to 6,521 units, representing an increase of 31% over the same period last year. Despite the year-on-year drop of 7.9% of the overall sales volume of large wheeled tractors resulting from the controlled sales volume of 70-80 large wheeled tractors, its market share increased by 1.6 percentage points over the same period last year and maintained its leading position. Sales volume of medium wheeled tractors increased by 6.7% over the same period last year, of which 45-55 horse power wheeled tractors increased by 152% over last year. Given the drop of the sales volume of small wheeled tractors by 3.6% due to structural adjustment, turnover and operating results remained unchanged. Through upgrades and drop of sales volume by 16% of crawler tractor, operating results increased by 10% over last year. Secondly, due to adjustment of market structure and forged expansion in international market. Through strengthening of the construction of international sales and marketing network as well as after-sales service system, US$41,380,000 of exports was realized, representing a growth of 68.6% over the same period last year. Thirdly, thanks to greater effort by the Group in investment in research and development which boosted autonomous innovation. During the Reporting Period, investment in research and development increased by 67% over the same period last year. 160-180 horse power wheeled tractors, which were developed successfully upon research, have been introduced in the market in bulk. 25-35 horse power wheeled tractors witnessed quick momentum and the product series of 25-180 horse power wheeled tractors were formed which reinforced the Group's leading position of industry.

MANAGEMENT DISCUSSION AND ANALYSIS

Construction machinery business

During the Reporting Period, construction machinery business maintained a growing trend with considerable export volume. Capitalized on the market opportunities, the Group adjusted the product structure and sold 10,673 units of construction machinery, representing an increase of 11.9% over last year; Turnover amounted to RMB1,480,082,000, representing an increase of 23.5% over the same period last year; Consolidated gross profit margin was 8.34%, representing a rise of 0.73 percentage point over last year; Operating results continued to record a loss with a year-on-year loss of RMB2,992,000. Upon analysis on investment in research and development which increased by RMB8,170,000 per project over the same period last year, the loss of the operating results of the construction machinery business decreased by RMB11,162,000 as compared with the same period last year. During the Reporting Period, various operating strategies were adopted in respect of different characteristics of construction machinery products: 1) enhancement in the structural adjustment for bulldozers and small construction machinery with higher profitability by the Group. Such a measure resulted in an improvement in the quality and sales and marketing management of the products, together with an increase in the sales volume of 2.3% and 10.3% respectively; 2) focusing on the improvement of the functions of traditional road rollers by the Group, aspiring to improve product functions to enhance the competitiveness and narrow down the difference between the target-oriented enterprises and the Group. Such actions increased the market share of the product and recorded an export volume of three times higher than that of last year; 3) enhancement in product development and market exploration for new businesses including forklifts and graders by the Group which led to a substantial increase in the sales volume whilst becoming a new economic growing point; and 4) with quality upgrade and function improvement as the major task, initial progress were achieved in the adjustment of product structure and market structure of such products. The relevant export volume increased by 350% over the same period last year which accounted for 60% of the total sales volume.

Engine machinery business

During the Reporting Period, to cater for the requirements of product structure and market structure adjustments, the Group proactively forged ahead the technological upgrade including power enhancement, energy saving and environmental protection of its engine machinery business. While ensuring the satisfaction of the demand for the main products' ancillary of the Group, constant exploration of ancillary markets were carried out. 82,077 diesel machines were sold which realized a turnover of RMB629,067,000; The operating results was RMB89,300,000; Gross profit margin was 16.9%, representing an increase of 1.2 percentage point over the same period last year; Investment in research and development rose by RMB26,000,000 over the same period last year. Engine machinery business becomes a significant source of profit of the Group.

Financial Business

During the Reporting Period, China YTO Group Finance Company Limited ("FTGF"), a subsidiary of the Company, provided sufficient funds for the Group's production and operation by reinforcing centralized management of capital and enhancing the efficiency of capital use. During the Reporting Period, the operating results of FTGF recorded RMB26,802,000, representing a decrease of RMB8,310,000 over last year as a result of the 5.5 percentage point upward adjustment of deposit reserve ratio of banks by the State.

Investment Income

During the Reporting Period, the Company, in response to the movement of the capital market, duly disposed of part of its legal person shares in the Bank of Communications and obtained an investment income before tax of RMB73,780,000. Under effective risk control, FTGF launched new business such as securities investment and obtained an investment income before tax of RMB32,712,000.

ANALYSIS ON PERIOD EXPENSES OF THE GROUP

By business	**31 December 2007**	31 December 2006	Difference	% of Change
	RMB'000	*RMB'000*	*RMB'000*	
Selling costs	**273,866**	229,618	44,248	19.27
Administrative expenses	**395,811**	338,610	57,201	16.89
Other operating expenses	**63,853**	28,613	35,240	123.16
Finance costs	**31,589**	16,593	14,996	90.38
Total	**765,119**	613,434	151,685	24.72

Selling cost:

The Group's selling costs increased by RMB44,248,000 or 19.27% from the same period last year, mainly attributable to: 1) selling costs of RMB38,160,000 incurred from the newly integrated engine machinery business ; 2) an increase of RMB10,690,000 in project sales and transportation expenses arising from the adjustment in the selling model and policy; and 3) the tightening control on expenses by the Group which lowered other expenses by RMB4,600,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses:

The Group's administrative expenses increased by RMB57,201,000 or 16.89% from the same period last year, mainly attributable to: 1) an increase of RMB33,450,000 in administrative expenses incurred from the newly integrated engine machinery business; 2) an increase of RMB75,450,000 in research and development expenses of the Group's products ; 3) an increase of RMB13,230,000 in audit and consultation expenses for the business restructuring; 4) a decrease of RMB57,610,000 in the administrative expenses arising from the adjustment in part of the labor insurance; and 5) a decrease of RMB4,830,000 in the controllable expenses as a result of the tightening budget control.

Other operating expenses:

The Group's other operating expenses increased by RMB35,240,000 or 123.16% from the same period last year, which is attributable to: 1) an increase of approximately RMB12,420,000 in provision for retirement welfare cost of the internally retired workers; 2) an increase of RMB18,290,000 in provision for trade receivable impairment year due to the increased aging of the trade receivable of the construction machinery business of the Group.

Finance costs:

Finance costs increased by RMB14,996,000 over the same period last year, mainly attributable to the increase in borrowings arising from integration of engine machinery business, which added RMB12,590,000 to finance costs.

ANALYSIS OF CHANGE IN CURRENT ASSETS

	31 December 2007	31 December 2006	Difference	% of Change
	RMB'000	*RMB'000*	*RMB'000*	
Cash and cash equivalents	**1,147,084**	765,904	381,180	49.77
Pledged deposits	**151,640**	122,440	29,200	23.85
Trade and bills receivable	**925,946**	744,774	181,172	24.33
Inventories	**841,800**	852,366	(10,566)	(1.24)

Cash and cash equivalents : As at 31 December 2007, the Group's current cash and cash equivalents amounted to RMB1,147,084,000, of which the Company owns as to RMB397,723,000 and the remaining are owned by the subsidiaries.

Pledged deposits: Pledged deposit of the Group increased by RMB29,200,000, mainly arising from the increased guarantee deposit to the bank for the purpose of acquiring bank acceptance bills.

Trade and bills receivable: The Group's trade and bills receivable increased by RMB181,172,000 over the same period last year, of which trade receivable increased by RMB44,230,000 and bills receivable increased by RMB136,942,000. The bills recivable held by the Company were all bank acceptance bills.

The increase in trade receivables mainly resulted from the outstanding amount of approximately RMB40,220,000 from the funding arising from the subsidy for purchasing agricultural machinery for sales projects at the end of 2007. The said amount has been fully recovered in March 2008.

Changes in inventory: During the Reporting Period, the Group enhanced inventory management and liquidated social inventory , resulting in a decrease of RMB10,566,000 in inventory over the same period last year. The inventory turnover days were 51 days, which was 1.6 days faster than last year.

Investment

During the Reporting Period, the associates of the Group, Shanghai Qiangnong (Group) Company Limited and Luoyang First Motors Company Limited still recorded loss. YTO (Luoyang) Shunxing Co., Ltd. completed installation and testing of equipments in 2007 and will commence production in 2008.

ANALYSIS OF ASSETS AND FINANCIAL POSITION OF THE GROUP

Indicators of Financial Ratio:

Items	Basis of calculation	31 December 2007	31 December 2006
Gearing ratio	Total liabilities/total assets x 100%	**49.84%**	52.56%
Current ratio	Current assets/current liabilities	**1.61**	1.34
Quick ratio	(Current assets - inventories)/current liabilities	**1.25**	0.98
Debt equity ratio	Total liabilities/shareholders' equity* x 100%	**106.22%**	119.34%

* *Note:* Shareholders' equity (excluding minority interests)

As of 31 December 2007, the gearing ratio of the Group was 49.84%, representing a decrease of 2.72 percentage point over the same period last year. The reason is that the booming operating results of the Group led to an increase in the equity attributable to equity holders of the Parent. Besides, the share capital increased as a result of the issue of new shares by the Company in 2007.

Equity and Reserves

Items	**31 December 2007** *RMB'000*	31 December 2006 *RMB'000*	Increase/ (decrease) *RMB'000*
Share capital	**845,900**	785,000	60,900
Capital surplus	**1,539,938**	1,378,840	161,098
Statutory surplus reserve	**99,695**	77,570	22,125
Statutory public welfare fund	**—**	—	—
Reserve fund	**3,373**	2,873	500
Enterprise expansion fund	**2,356**	2,356	—
General and statutory reserve	**4,841**	4,446	395
General surplus reserve	**64,744**	64,744	—
Available-for-sale investment revaluation reserve	**74,932**	97,150	(22,218)
Exchange fluctuation reserve	**(8,772)**	(4,244)	(4,528)
Retained profit/(Accumulated losses)	**(77,339)**	(210,704)	133,365
Proposed final dividend	**25,377**	—	25,377

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

In 2008, the Group intends to make an investment of RMB426,350,000, which will be mainly used for the acquisition of land and construction for heavy power duty diesel machines project, functional upgrade of large and medium horsepower wheeled tractors, constructron of electronic purchasing platform and office automation information system projects, high pressure forged steel crankshaft production lines and other technological renovation projects.

EXCHANGE RATE RISK

As the Group currently carries out its business activities mainly in the PRC, its capital income and expenditure are principally denominated in Renminbi, with a small amount of income and expenditure 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 2007, there was no pledge of any deposit of foreign currency of the Group.

PLEDGE OF ASSETS

As at 31 December 2007, certain of the Group's buildings and machinery with an aggregate book value of approximately RMB62,321,000 (year 2006: RMB91,009,000) were pledged to secure certain short term bank loans granted to the Group.

As at 31 December 2007, certain of the Group's prepaid land premiums with an aggregate book value of approximately RMB8,095,000 (year 2006: RMB8,304,000) were pledged to secure bank loans granted to the Group.

As at 31 December 2007, the Group's deposits of approximately RMB147,168,000 (year 2006: RMB105,270,000) were pledged to secure the Group's bills payable of approximately RMB231,117,000 (year 2006: RMB241,381,000).

NUMBER OF STAFF AND TRAINING FOR STAFF

As at 31 December 2007, the Company had a total of 8,232 staff members, of whom 3,827 were production staff, 441 were engineering technicians, 119 were financial staff, 620 were sales staff, 549 were administrative staff, 93 were service staff and 2,583 were other staff.

The Company carried out target-oriented business trainings for staff at different levels and organized technical service trainings for service staff, skills trainings on cost cut analysis for procurement staff, process management system trainings for research and development staff, trainings on quality improvement for functional department's staff. During the Reporting Period, altogether 27,045 staff members were trained through a total of 1,777 various training courses.

MANAGEMENT DISCUSSION AND ANALYSIS

REMUNERATION POLICY FOR STAFF

The Company continued to implement a basic salary system based on "the remuneration in accordance with position". It has established various remuneration systems in line with the work nature of employees in different areas, including annual salary system, post-performance-based salary system, piece-rate-based salary system, time-based salary system, project-commission-based salary system and contractual salary system, which have effective mobilized the enthusiasm of staff.

During the Reporting Period, besides the abovementioned remuneration systems, the Company established different levels of professional and technical positions such as chief technician, chief engineer (economist) and executive to set up a multi-channel incentive system for the promotion of administrative staff and professional staff, thus fully mobilized the enthusiasm of the staff and provided strong support for the Company's development in terms of talents team.

CONTINGENT LIABILITIES

As at 31 December 2007, Zhenjiang Huachen Huatong Road Machinery Company Limited ("ZHHRM"), a subsidiary of the Group, provided a guarantee to a bank for securing a loan of RMB14 million granted to a customer of the Group.

Details of the contingent liabilities as at 31 December 2007 are set out in Note 39 to the financial statement of this annual report.

PROFILES OF DIRECTORS, SUPERVISORS, COMPANY SECRETARY AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Liu Dagong, aged 53, joined China First Tractor Group (Note: China First Tractor Group refers to YTO Group (formerly known as First Tractor Construction Machinery Company) and its subsidiaries.) 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 YTO Group, 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.

Mr. Zhao Yanshui, aged 44, 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 YTO Group, 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 with professorships.

Mr. Liu Wenying, aged 58, 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 YTO Group 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.

PROFILES OF DIRECTORS, SUPERVISORS, COMPANY SECRETARY AND SENIOR MANAGEMENT

Mr. Yan Linjiao, aged 52, 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 First Tractor Group. 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 51, 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, assistant 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 YTO Group 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 52, 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 YTO Group 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 52, 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 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 44, 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 YTO Group and a director of the Company. Mr. Li has extensive experience in marketing and international market development. Mr. Li specialized 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 51, 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 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 44, 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, head of the Production Department of YTO Group and the general manager of Yituo (Luoyang) Building Machinery Company Limited. He joined the Company in 2004 and is currently 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 75, 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.

PROFILES OF DIRECTORS, SUPERVISORS, COMPANY SECRETARY AND SENIOR MANAGEMENT

Mr. Chan Sau Shan, Gary, aged 54, 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 28 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 52, 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 doctorate 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 63, is an independent non-executive director of the Company. He joined South China Agricultural University in 1982 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 convener 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 54, 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 First Tractor Group 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 YTO Group and chairman of the Supervisory Committee of the Company. Mr. Zheng has extensive experience in administration, supervision and internal audit. He holds a title of Senior Political Engineer.

Mr. Zhao Shengyao, aged 53, 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 YTO Group as well as a supervisor of the Company. Mr. Zhao has extensive experience in production, operation, and administration and supervision.

Mr. Xu Weilin, aged 45, 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 audit of corporate finance. Mr. Xu graduated from Jiangsu Polytechnic University, majoring in industrial management and holds the title of Economist.

Mr. Kong Lingfu, aged 57, 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 YTO Group and an employee 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. Shao Jianxin, aged 54, 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 an employee 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 37, 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.

DEPUTY GENERAL MANAGER

Mr. Qu Dawei, aged 41, joined China First Tractor Group in 1988. He had been head of Technological Equipment Research Institute of China First Tractor Group, general manager of equipment branch of YTO Group and deputy general manager of Spares Division of YTO Group. Joined the Company in 2007, he is currently the executive deputy general manager of the Company. Mr. Qu is familiar with the research and development of the technological equipment, and has extensive experience in business management and reform of state-owned enterprise. Mr. Qu graduated from Huazhong University of Science and Technology with a master's degree. He holds the title of Senior Engineer.

Mr. Liu Jiguo, aged 43, joined China First Tractor Group in 1987, where he had been section head, deputy factory manager and factory manager. He had also served as executive deputy general manager and general manager of Agriculture Equipment Division of YTO Group. Joined the Company in 1997, he is currently the deputy general manager of the Company. Mr Liu is familiar with the machinery manufacturing technics and equipment, marketing, and has extensive experience in production, operation, cost management of procurement and financial operations. Mr. Liu graduated from Northeast Heavy Machinery Institute and Jiangsu University of Science and Technology with a bachelor's degree in engineering and a master's degree in engineering respectively. He holds the title of Senior Engineer.

Mr. Li Xibin, aged 50, once worked in the Luoyang Tractor Institute under the Ministry of Machinery Industry of China. He joined China First Tractor Group in 1995 and had been the head assistant and deputy head of YTO Group's technology center, factory manager of No. 2 Iron Foundry, general manager of Yituo (Luoyang) Diesel Engine Company Limited and general manager of Yituo (Luoyang) Power Machinery Company Limited. Joined the Company in 2006, he is currently the deputy general manager of the Company. Mr. Li is familiar with the internal combustion engine industry, and has extensive experience in management and operation of enterprise. Mr. Li graduated from Jiangsu University of Science and Technology and Wuhan University of Science and Technology with a bachelor's degree in engineering and a master's degree in engineering respectively. He holds the title of Senior Engineer with Professorship.

Mr. Jin Yang, aged 48, joined China First Tractor Group in 1993, where he had been technician, workshop director, assistant to factory manager and factor manager, and had been deputy general manager of Construction Machinery Division of YTO Group. Joined the Company in 2004, he is currently the deputy general manager of the Company. Mr Jin is familiar with the machinery manufacturing technologies and equipment, and has extensive experience in business management, technics materials, production, operation and quality management. Mr. Jin graduated from Changchun Institute of Optics and Fine Mechanics with a bachelor's degree in engineering. He holds the title of Senior Engineer.

CHIEF FINANCIAL OFFICER

Ms. Dong Jianhong, aged 41, joined China First Tractor Group since 1989 and has been its deputy section chief, section chief, deputy department head and the head of the financial department. She joined the Company since 1997 and is currently the chief financial officer of the Company. Ms. Dong is currently the chief financial officer of the Company. Ms. Dong is familiar with financial management of mega enterprises and is well experienced in accounting, financial management and capital operation. Ms. Dong has obtained a bachelor's degree in science from Zhengzhou University and a master's degree in engineering from Xi'an University of Technology. She holds the title of Senior Economist.

REPORT OF THE DIRECTORS

The directors herein present the report and the audited financial statements of the Company and the Group for the year ended 31 December 2007.

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 2007 and the financial status of the Company and the Group as at 31 December 2007 are set out in the financial statements in pages 61 to 176.

The Board recommends the payment of a final cash dividend in the amount of RMB0.03 per share for the financial year ended 31 December 2007. The dividends for H share shareholders will be paid in Hong Kong dollars. The exchange rate is determined by the average exchange rate announced by the People's Bank of China five working days before the declaration of dividends, representing a dividend of HK$0.0334 per H Share. The said dividend will be distributed on or before 13 August 2008 to shareholders whose names appear on the Company's register of members as at 14 May 2008. Payment of dividends is subject to the approval by the annual general meeting to be held on 13 June 2008. In order to determine the holders of H Shares who are entitled to receive 2007 final cash dividends, the Company's register of members will be closed from 14 May 2008 to 12 June 2008 (both days inclusive) during which period no transfer of H Shares will be effected. Holder of H Shares who wish to receive 2007 final cash dividends must deposit the transfer documents together with the relevant share certificates at the H Shares registrar of the Company, Hong Kong Registrars Limited, at or before 4:30 p.m. on 13 May 2008. The address of the share registrar Hong Kong Registrars Limited is 46/F, Hope well Centre, 183 Queen's Road East, Wanchai, Hong Kong.

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				
	2007	2006	2005	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**6,775,434**	6,101,451	4,765,828	4,246,554	3,277,297
Profit/(loss) before tax	**237,804**	87,467	(77,482)	23,813	54,666
Tax	**(40,024)**	(15,251)	17,183	(13,953)	(21,641)
Current Profit/(loss)	**197,780**	72,216	(60,299)	9,860	33,025
Minority interests	**(16,018)**	633	9,863	2,101	(16,697)
Net profit/(loss) from ordinary activities attributable to equity holders of the parent	**181,762**	72,849	(50,436)	11,961	16,328

Consolidated assets, liabilities and minority interests

	As at 31 December				
	2007	2006	2005	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**5,488,083**	4,991,222	3,821,630	3,649,665	3,660,072
Total liabilities	**(2,735,190)**	(2,623,173)	(1,644,175)	(1,412,889)	(1,465,153)
Minority interests	**(177,848)**	(170,018)	(146,536)	(159,645)	(129,749)
Total equity attributable to equity holders of the parent	**2,575,045**	2,198,031	2,030,919	2,077,131	2,065,170

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 14 to the financial statements.

5. SHARE CAPITAL, CONVERTIBLE SECURITIES, OPTIONS AND WARRANTS

During the Reporting Period, the Company issued 60,900,000 H shares. Accordingly, the total share capital increased to 845,900,000 shares from 785,000,000 shares (relevant details are set out in Paragraph 24 of this report headed "Significant Events")

During the year of 2007, 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 36 to the financial statements.

9. DISTRIBUTABLE RESERVES

Details of the distributable reserves of the Company as at 31 December 2007 are set out in note 36(b) to the financial statements.

10. MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2007, the five largest customers and suppliers of the Group respectively accounted for less than 30% of the total sales and purchases of the Group. So far as the Directors are aware, none of the Directors, Supervisors, their associates or any Shareholder who own 5% or above 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

Supervisors:

Mr. Zheng Luyu
Mr. Kong Lingfu
Mr. Zhao Shengyao
Mr. Xu Weilin
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 2007 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'AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2007, none of the Directors, Supervisors or chief executives of the Company had any interests or short positions in any shares or underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("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.

15. CONTRACTS OF SIGNIFICANCE

Neither the Company nor any of its subsidiaries has entered into any contract of significance with the controlling Shareholder or any subsidiary of the Company during the Reporting Period.

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

As at 31 December 2007, the total issued Shares of the Company amounted to 845,900,000 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")	443,910,000	52.48
(2) Circulating Shares listed in the Stock Exchange (the "H Shares")	401,990,000	47.52
Total number of Shares	845,900,000	100.00

During the Reporting Period due to the issue of new shares, number of domestic shares decreased from 450,000,000 shares to 443,910,000 shares, representing a decrease from 57.32% to 52.48% in the total share capital. Number of H Shares increased from 335,000,000 shares to 401,990,000 shares, representing an increase from 42.68% to 47.52% in the total share capital.

17. SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the following Shareholders 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	Approximate percentage of the total issued Shares of the Company
YTO Group Corporation Limited	Beneficial owner	443,910,000(L) (long position) *(Note)*	52.48%

H Shares

Name of Shareholder	Nature of interests	Number of Shares *(Note)*	Approximate percentage of the total issued H Shares of the Company
DnB NOR Asset Management (Asia) Limited	Investment manager	49,068,000 (L)	12.20%
Morgan Stanley	Investment manager	30,862,000 (L)	7.68%
FMR LLC	Investment manager	27,947,400 (L)	6.95%
UBS AG	Investment manager	17,046,000 (L)	5.09%

Note:

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

Save as disclosed, there was no other person who, as at 31 December 2007, had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

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

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, the Company and the YTO Group entered into five continuing connected transaction agreements subject to independent shareholders' approval including First Tractor Supply Agreement, Material Supply Agreement, Composite Services Agreement, Energy Supply Service Agreement, and Financial Services Agreement. On 13 December 2006, the Company and the YTO Group entered into three agreements in relation to continuing connected transactions which were exempt from independent shareholders' approval, namely the First Tractor Properties Lease Agreement, Yituo Properties Lease Agreement and Yituo Facilities Lease Agreement. These agreements shall be effective for three years. The Company has made disclosures pursuant to the relevant requirements of the Listing Rules. The aforesaid five continuing connected transactions agreements and relevant new caps were approved by the Shareholders at the extraordinary general meeting of the Company on 22 December 2006.

Save as the above transactions, the Group had no other connected transactions.

After reviewing the above connected transactions for the current year, 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 connected transactions for the year, the auditors of the Company confirmed the matters set out in rule 14A.38 of the Listing Rules.

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

20. SHARE PLEDGE

On 29 September 2006, YTO Group (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("Fuel Jet Company"), 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 YTO Group, the Company made an announcement in relation thereto. During the Reporting Period, the loan of Fuel Jet Company has been expired and settled and the share pledges was released in February 2008.

21. APPLICATION OF THE PROCEEDS FROM THE H SHARES ISSUE

On October 2007, the Company placed 66,990,000 H Shares and listed them on the Stock Exchange, including 60,900,000 H share newly issued by the Company, raising net proceeds of approximately RMB222,000,000 (approximately HK$229,400,000).

During the Reporting Period, approximately RMB89,930,000 were applied in the technical renovation project of medium and large wheeled tractors and the remaining was used as supplementary working capital.

22. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

On February 2007, the tenth meeting of the fourth Board of the Company resolved to transfer 70% shares of Guizhou Zhenning Biological Industrial Company Limited ("Zhenning Company") to Guizhou Hongyue (Group) Food Factory Company Limited ("Hongyue Company"). With reference to the assessed net asset value, the transfer price is RMB440,000.

23. 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.

24. SIGNIFICANT EVENTS

The Company had the following significant events:

1. On October 2007, the Company placed 66,990,000 H Shares at the price of HK$3.95 per share and listed them on the Stock Exchange, including: (1) 60,900,000 H share newly issued by the Company which rasied proceeds of approximately RMB222,000,000 (approximately HK$229,400,000). The raised funds will be used for expansion of technology renovation of large/medium wheeled tractors project; and (2) 6,090,000 H Shares converted from the same number of existing domestic Shares held by YTO Group in accordance with the applicable PRC laws and regulations. The entire net proceeds from the sale of such H Shares have been remitted to National Council for Social Security Fund of PRC. Upon completion of placement, the total share capital of the Company was 845,900,000 shares. On 31 October 2007, the Board of the Company made corresponding amendments to the Articles of Association of the Company as authorized by the annual general meeting held on 15 June 2007 to reflect the changes of share capital arising from the placement. The Company had made an announcement in relation to the amendments to the Articles of Association of the Company pursuant to the requirements of the Listing Rules.

2. During the Reporting Period, the Board of the Company appointed Mr. Qu Dawei, Mr. Liu Jiguo, Mr. Li Xibin and Mr. Jin Yang as the deputy general manager as nominated by the general manager, Mr. Yan Linjiao. Mr. Li Youji, Mr. Guo Zhiqiang, Mr. Zhang Youxu and Mr. Yuan Rongqing resigned from the office of deputy general manager due to the changes of job.

3. On March 2007, the Company disposed of 17,000,000 legal person shares held in Bank of Communications, at a price of RMB6.3 per share. The total proceeds amounted to RMB107,100,000. The Company currently holds 8,000,000 legal person shares of Bank of Communications upon completion of the sale.

4. In order to further develop the domestic market in the northwest and international middle Asia market, on 27 June 2007, the Company established a wholly owned subsidiary in Xinjiang, YTO (Xinjiang) Dong Fang Hong Machinery Company Limited ("Xinjiang Company"), with a registered capital of RMB25,000,000. Its operation scope includes the manufacturing and sales of tractors, parts and components. Xinjiang Company will become a comprehensive base of the Company in the northwest region for the assembly of agricultural machinery products, production, logistics, sales and promotion of product image and training.

5. On 28 November 2007, the Board of the Company preliminarily approved to invest in the construction project of large/medium wheeled tractors and heavy duty diesel engines. According to the preliminary planning for the project, such investment is expected to create an annual production capacity of 50,000 large wheeled tractors, 75,000 medium wheeled tractors and 20,000 heavy duty diesel engines.

6. On 13 November 2007, the Company transferred 25% equity interest it held in Yituo (Luoyang) Casting & Forging Co., Ltd. ("Casting & Forging Company"), an associated company fo the Company, to YTO Group for a consideration of RMB1 for the purpose of business integration. Casting & Forging Company suffered consecutive losses for several years and its net assets has become negative.

25. POST BALANCE SHEET EVENT

On 2 February 2008, the Board appointed Ms. Dong Jianhong as the Chief Financial Officer of the Company. Mr. Zhang Jing is no longer served as the position of Chief Financial Officer of the Company. Except for that, the Group has no other significant post balance sheet event.

26. 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.

27. MATERIAL LITIGATION

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

28. 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 act as the Qualified Accountant.

By order of the Board
Liu Dagong
Chairman

Luoyang, the PRC
18 April 2008

CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Company has been proactively complying with all code provisions of the Code on Corporate Governance Practices in Appendix 14 of 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 the implementation of internal control. Meanwhile, it has 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 Messrs. Liu Dagong (Chairman), 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, Chan Sau Shan, Gary, Chen Zhi and Luo Xiwen. Their respective biographical details are set on pages 25 to 28 of this annual report.

All directors of the Company (including independent non-executive Directors) were re-elected on 16 June 2006 and the employment is effective for a term of three years.

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, individual responsibility and the minority going along with the decision of the majority.

During the year, the Board of the Company convened a total of 19 meetings. Attendance of each Director is as follows:

	Name of Directors	Number of attendance /number of possible attendance
Chairman	Mr. Liu Dagong	19/19
Executive Directors	Mr. Zhao Yanshui	19/19
	Mr. Liu Wenying	19/19
	Mr. Yan Linjiao	19/19
	Mr. Li Tengjiao	19/19
	Mr. Shao Haichen	19/19
	Mr. Zhang Jing	14/19
	Mr. Li Youji	17/19
	Mr. Liu Shuangcheng	18/19
	Mr. Zhao Fei	17/19
Independent non-executive Directors	Mr. Lu Zhongmin	12/19
	Mr. Chen Sau Shan, Gary	9/19
	Mr. Chen Zhi	12/19
	Mr. Luo Xiwen	12/19

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 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 2007.

CHAIRMAN OF THE BOARD AND GENERAL MANAGER

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

Their biographical details are set out on pages 25 to 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.

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 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 remuneration of 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, YTO Group, 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 are 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 audit and other related services in relation to the financial statements of the Group for the year ended 31 December 2007 prepared under the Hong Kong Financial Reporting Standards and the PRC Accounting Standards and Regulations, and the Company's 2007 Interim Report, plus other special purpose audit services. An aggregate amount of approximately RMB7,280,000 was charged for such services, which included taxes and disbursements.

During the year, Ernst & Young provided a few non-audit services to the Company:

(1) Providing relevant services of settlement of income tax for the year 2006 to 2007 and prepayment of income tax for the year 2007-2008 to the Company, with a charge of HK$8,500; and

(2) Providing taxation analysis service in respect of a joint venture proposed to be established by the Company in Henan province, with a charge of RMB250,000.

The Board considers that provision of the above two services to the Company has no influence on the independency of Ernst & Young.

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;

(ii) 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, Gary and Mr. Chen Zhi.

During the year, the Audit Committee reviewed all accounting principles and practices adopted by the Group and discussed the matters in respect of internal control and financial statements. The Audit Committee convened four meetings with the financial controller and external auditors. The results of the Company for year 2006 and the interim results of the Company for year 2007 were considered. The Audit Committee has also reviewed the annual results of the Group for the year ended 31 December 2007.

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 material 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 37 to Page 38 of the annual report as at 31 December 2007. The capitalization of public float of the Company reached HK$1,587,860,500 as at 31 December 2007.

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 15 June 2007, and all the proposals were approved.

During the year, 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

Luoyang, the PRC
18 April 2008

REPORT OF THE SUPERVISORY COMMITTEE

During the Reporting Period, pursuant to the regulations set out in the Company Law of the People's Republic of China ("Company Law") and the Articles of Association of the Company, the Supervisory Committee of the Company, in compliance with good and sincere principles, being responsible to the shareholders and the Company, prudently and diligently discharged their supervising duties and committed to protecting the legal interests of the shareholders and the Company. I herein present the working report on behalf of the Supervisory Committee as follows:

REVIEW ON THE WORK OF THE SUPERVISORY COMMITTEE

1. During the Reporting Period, the Supervisory Committee convened two meetings in accordance with the requirements of the Articles of Association of the Company and the procedural rules of Supervisory Committee meetings.

    (1) On 20 April 2007, the Supervisory Committee convened a meeting. All supervisors attended the meeting at which the following proposals: i) the report of the supervisory committee for the year 2006; ii) the financial statements of the Company prepared under relevant Hong Kong and PRC accounting principles for the year 2006; iii) connected transactions during the year 2006 were considered and approved.

    (2) On 24 August 2007, the Supervisory Committee convened a meeting. All supervisors attended the meeting at which the interim financial report for the year 2007 were considered and approved.

2. During the Reporting Period, 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.

REPORT OF THE SUPERVISORY COMMITTEE

INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY IN 2007

1. During the Reporting Period, the Supervisory Committee did not receive any report of or discover any violation of the Articles of Association of the Company, 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, Articles of Association of the Company and relevant laws, regulations and system. The board was devoted to duty, acted in compliance with rules and laws and was in the interest of all shareholders of the Company.

2. 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.

3. During the Reporting Period, the Supervisory Committee is in the view that the connected transactions are fair and reasonable and carried out in accordance with the interest of the shareholders of the Company as a whole and no actions infringing the interests of the shareholders have been reported.

4. The Supervisory Committee considers that the financial statements of the Group for the year ended 31 December 2007 which have been audited by Ernst & Young, Certified Public Accountants, reflects a true and fair view of the operating results and assets of the Group in year 2007.

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 of the Company.

In 2008, the Supervisory Committee will continue to perform their duties as stipulated in the Company Law and the Articles of Association of the Company to protect the interests of the shareholders and the Company.

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

Luoyang, the PRC
18 April 2008

SUPPLEMENTARY INFORMATION

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

A subsidiary of the Company, FTGF is an enterprise group finance company established in the PRC and 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 the Measures of Management on Enterprise Group Finance Companies promulgated by The People's Bank of China and the relevant supervising regulations and documents 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.

SUPPLEMENTARY INFORMATION

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 when it falls due.

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 marketing 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 2007 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, 13 June 2008 at 9:00 a.m. for the purpose of passing the following resolutions:

I. AS ORDINARY RESOLUTIONS:

(1) To consider and approve the report of the board (the "Board") of directors (the "Directors") of the Company for the year 2007;

(2) To consider and approve the report of the supervisory committee of the Company for the year 2007;

(3) To consider and approve the audited financial report for the year 2007;

(4) To consider and approve the payment of a final cash dividend in the amount of RMB0.03 per share in respect of the financial year ended 31 December 2007;

(5) To consider and approve the re-appointment of Ernst & Young as auditors of the Company for the year 2008 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; and

(7) Other matters.

II. AS SPECIAL RESOLUTIONS:

1. Subject to the accumulated 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 the 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 as at 30 June 2008.

NOTICE OF ANNUAL GENERAL MEETING

Notes:

I. The register of members of the Company will be temporarily closed from 14 May 2008 to 12 June 2008 (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 13 May 2008 at Hong Kong Registrars Limited at or before 4:00 p.m. The Shareholders or their proxies being registered before the close of business on 13 May 2008 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.

II. 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.

III. 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.

IV. 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, 23 May 2008.

V. 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.

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

VII. The Company's registered address:

No. 154, Jianshe Road, Luoyang, Henan Province, the PRC
Postal code: 471004
Telephone: 86-379-64967038
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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, LI Youji, Ms. DONG Jianhong, Messrs. LIU Shuangcheng and ZHAO Fei and four independent non-executive Directors, namely, Messrs. LU Zhongmin, CHEN Zhi, CHAN Sau Shan, Gary and LUO Xiwen.

Luoyang, the PRC
28 April 2008

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG

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

To the shareholders of First Tractor Company Limited
(Established 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 61 to 176, which comprise the consolidated and company balance sheets as at 31 December 2007, 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 2007 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

Hong Kong
18 April 2008

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	5	**6,775,434**	6,101,451
Cost of sales		**(5,976,022)**	(5,509,093)
Gross profit		**799,412**	592,358
Other income and gains	5	**216,160**	106,716
Selling and distribution costs		**(273,866)**	(229,618)
Administrative expenses		**(395,811)**	(338,610)
Other expenses		**(63,853)**	(28,613)
Finance costs	7	**(31,589)**	(16,593)
Share of profits and losses of associates		**(12,649)**	1,827
PROFIT BEFORE TAX	6	**237,804**	87,467
Tax	10	**(40,024)**	(15,251)
PROFIT FOR THE YEAR		**197,780**	72,216
Attributable to:			
Equity holders of the parent	11	**181,762**	72,849
Minority interests		**16,018**	(633)
		197,780	72,216
DIVIDENDS	12		
Proposed final		**25,377**	—
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**RMB22.82 cents**	RMB9.28 cents

CONSOLIDATED BALANCE SHEET

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,256,455**	1,232,240
Prepaid land premiums	15	**30,374**	20,192
Goodwill	16	**52,990**	52,990
Interests in associates	18	**19,800**	20,449
Available-for-sale investments	19	**187,150**	251,399
Loans receivable	20	**83,554**	146,699
Deferred tax assets	33	**28,331**	34,273
Total non-current assets		**1,658,654**	1,758,242
CURRENT ASSETS			
Inventories	21	**841,800**	852,366
Trade and bills receivables	22	**925,946**	744,774
Loans receivable	20	**194,215**	174,820
Bills discounted receivable	23	**56,053**	219,561
Prepayments, deposits and other receivables	24	**465,326**	349,628
Equity investments at fair value through profit or loss	26	**47,365**	3,487
Pledged deposits	27	**151,640**	122,440
Cash and cash equivalents	27	**1,147,084**	765,904
Total current assets		**3,829,429**	3,232,980
CURRENT LIABILITIES			
Trade and bills payables	28	**1,144,065**	1,279,361
Other payables and accruals	29	**575,971**	471,590
Customer deposits	31	**131,231**	156,814
Interest-bearing bank borrowings	32	**459,900**	441,558
Tax payable		**20,824**	17,700
Provisions	30	**34,153**	34,787
Total current liabilities		**2,366,144**	2,401,810
NET CURRENT ASSETS		**1,463,285**	831,170
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,121,939**	2,589,412

	Notes	**2007** **RMB'000**	2006 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	32	**214,000**	120,000
Deferred income	34	**105,154**	27,680
Deferred tax liabilities	33	**25,225**	47,850
Provisions	30	**24,667**	25,833
Total non-current liabilities		**369,046**	221,363
Net assets		**2,752,893**	2,368,049
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	35	**845,900**	785,000
Reserves	36(a)	**1,703,768**	1,413,031
Proposed final dividend	12	**25,377**	—
		2,575,045	2,198,031
Minority interests		**177,848**	170,018
Total equity		**2,752,893**	2,368,049

Liu Dagong
Director

Yan Linjiao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

		Attributable to equity holders of the parent														
										Available for-sale						
		Issued capital	Share premium account	Statutory surplus reserve	Statutory public welfare fund	General surplus reserve	Reserve fund	Enterprise expansion fund	General and statutory reserve	investment revaluation reserve	Exchange fluctuation reserve	Accumulated losses	Proposed final dividend	Total	Minority interests	Total equity
	Notes	*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*	*RMB'000*
		(Note 35)	*(Note 35)*	*(Note36(a))*	*(Note36(a))*	*(Note36(a))*	*(Note36(a))*	*(Note36(a))*	*(Note36(a))*							
At 1 January 2007		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
Changes in fair values of available-for-sale investments		—	—	—	—	—	—	—	—	(22,218)	—	—	—	(22,218)	—	(22,218)
Exchange realignment		—	—	—	—	—	—	—	—	—	(4,528)	—	—	(4,528)	—	(4,528)
Total income and expense recognised directly in equity		—	—	—	—	—	—	—	—	(22,218)	(4,528)	—	—	(26,746)	—	(26,746)
Profit for the year		—	—	—	—	—	—	—	—	—	—	181,762	—	181,762	16,018	197,780
Total income and expense for the year		—	—	—	—	—	—	—	—	(22,218)	(4,528)	181,762	—	155,016	16,018	171,034
Acquisition of additional interests in subsidiaries		—	—	—	—	—	—	—	—	—	—	—	—	—	(5,046)	(5,046)
Dividends paid to minority shareholders		—	—	—	—	—	—	—	—	—	—	—	—	—	(2,992)	(2,992)
Issue of shares	35	60,900	171,669	—	—	—	—	—	—	—	—	—	—	232,569	—	232,569
Share issue expenses	35	—	(10,571)	—	—	—	—	—	—	—	—	—	—	(10,571)	—	(10,571)
Disposal of a subsidiary	37	—	—	—	—	—	—	—	—	—	—	—	—	—	(150)	(150)
Proposed final 2007 dividend	12	—	—	—	—	—	—	—	—	—	—	(25,377)	25,377	—	—	—
Transfers from/(to) reserves	36(a)	—	—	22,125	—	—	500	—	395	—	—	(23,020)	—	—	—	—
At 31 December 2007		845,900	1,539,938*	99,695*	—*	64,744*	3,373*	2,356*	4,841*	74,932*	(8,772)*	(77,339)*	25,377	2,575,045	177,848	2,752,893

	Notes	Attributable to equity holders of the parent														
		Issued capital	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	Proposed final dividend	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*	*RMB'000*
		(Note 35)	*(Note 35)*	*(Note36(a))*	*(Note36(a))*	*(Note36(a))*	*(Note36(a))*	*(Note36(a))*	*(Note36(a))*							
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 values 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 from statutory public welfare fund		—	—	—	(64,744)	64,744	—	—	—	—	—	—	—	—	—	—
Transfers from/(to) reserves	36(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

* These reserve accounts comprise the consolidated reserves of RMB1,703,768,000 (2006: RMB1,413,031,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	**2007** *RMB'000*	2006 *RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**237,804**	87,467
Adjustments for:			
Finance costs	7	**31,589**	16,593
Share of profits and losses of associates		**12,649**	(1,827)
Interest income	5, 6	**(39,239)**	(34,902)
(Gain)/loss on disposal of items of property, plant and equipment, net	5, 6	**1,862**	(3,953)
Gain on disposal of a subsidiary	5, 6	**(90)**	—
Depreciation	6	**115,393**	97,364
Amortisation of prepaid land premiums	6	**742**	553
Impairment of items of property, plant and equipment	6	**14,500**	7,593
Dividend income from unlisted investments	5, 6	**(3,850)**	(665)
Dividend income from listed investments	5, 6	**(270)**	(2,000)
Gain on disposal of available-for-sale investments	5, 6	**(73,780)**	—
Gain on disposal of listed equity investments at fair value through profit or loss, net	5, 6	**(35,772)**	—
Provision for impairment of trade receivables, net	6	**23,864**	5,895
Provision/(reversal of provision) for impairment of other receivables, net	6	**(15,036)**	5,000
Net charge for impairment losses of loans receivable	6	**3,855**	(353)
Net charge for impairment losses of bills discounted receivable	6	**(1,652)**	527
Reversal of provision for obsolete inventories, net	6	**(3,766)**	(11,903)
Recognition of government grants	5	**(3,898)**	—
Fair value gains on listed equity investments at fair value through profit or loss, net	5, 6	**(7,565)**	(716)
		257,340	164,673

	Notes	**2007** **RMB'000**	2006 RMB'000
Decrease in inventories		**14,332**	15,725
Decrease in loans receivable		**39,896**	68,183
Increase in trade and bills receivables		**(205,036)**	(15,655)
(Increase)/decrease in bills discounted receivable		**165,160**	(52,724)
(Increase)/decrease in prepayments, deposits and other receivables		**(102,609)**	99,942
(Increase)/decrease in an amount due from the Holding		**1,083**	(86,544)
(Increase)/decrease in equity investments at fair value through profit or loss		**(541)**	89
Increase/(decrease) in provisions		**(1,800)**	30,642
Increase/(decrease) in trade and bills payables		**(135,231)**	146,636
Decrease in customer deposits		**(25,583)**	(46,039)
Increase/(decrease) in other payables and accruals		**145,384**	(50,578)
Decrease in an amount due to the Holding		**(44,093)**	(52,518)
Cash generated from operations		**108,302**	221,832
Interest received		**39,239**	34,902
Interest paid		**(31,589)**	(16,593)
Income tax paid		**(29,860)**	(25,637)
Net cash inflow from operating activities		**86,092**	214,504

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	**2007** ***RMB'000***	2006 *RMB'000*
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received from unlisted investments		**3,850**	665
Dividends received from listed investments		**270**	2,000
Dividends received from an associate		**—**	1,827
Purchases of items of property, plant and equipment	14	**(186,546)**	(174,004)
Proceeds from disposal of items of property, plant and equipment		**27,843**	6,493
Increase in prepaid land premiums		**(10,924)**	(6,984)
Purchases of available-for-sale investments		**(14,162)**	(8,644)
Proceeds from disposal of available-for-sale investments		**107,100**	—
Acquisition of subsidiaries		**—**	47,528
Acquisition of additional interests in subsidiaries		**(5,046)**	—
Receipt of government grants		**84,650**	27,680
Investment in an associate		**(12,000)**	—
Disposal of a subsidiary	37	**434**	—
Increase in mandatory reserve deposits with the People's Bank of China		**(41,078)**	(6,512)
Decrease in time deposits		**1,773**	56,000
Increase in pledged deposits		**(29,200)**	(1,316)
Net cash outflow from investing activities		**(73,036)**	(55,267)

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	35	**255,824**	—
Share issue expenses	35	**(33,827)**	—
New bank loans		**742,051**	415,858
Repayment of bank loans		**(627,709)**	(294,400)
Dividends paid to minority shareholders		**(2,992)**	(6,570)
Contributions from minority shareholders		**—**	1,725
Net cash inflow from financing activities		**333,347**	116,613
NET INCREASE IN CASH AND CASH EQUIVALENTS		**346,403**	275,850
Cash and cash equivalents at beginning of year		**708,030**	435,067
Effect of foreign exchange rate changes, net		**(4,528)**	(2,887)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,049,905**	708,030
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	**987,148**	681,382
Non-pledged time deposits with original maturity of less than three months when acquired		**62,757**	26,648
		1,049,905	708,030

BALANCE SHEET

31 December 2007

	Notes	2007 *RMB'000*	2006 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	14	**718,840**	669,233
Prepaid land premiums	15	**1,955**	2,023
Interests in subsidiaries	17	**923,373**	915,263
Investments in associates	18	**20,715**	20,800
Available-for-sale investments	19	**129,101**	221,140
Deferred tax assets	33	**15,754**	20,906
Total non-current assets		**1,809,738**	1,849,365
CURRENT ASSETS			
Inventories	21	**294,699**	310,032
Trade and bills receivables	22	**561,748**	366,136
Prepayments, deposits and other receivables	24	**190,425**	125,008
Due from subsidiaries	17	**114,277**	118,777
Loans to subsidiaries	17	**171,400**	66,000
Deposits placed with a subsidiary	17	**395,269**	271,042
Pledged deposits	27	**23,773**	10,165
Cash and cash equivalents	27	**397,723**	290,369
Total current assets		**2,149,314**	1,557,529
CURRENT LIABILITIES			
Trade and bills payables	28	**496,691**	554,608
Other payables and accruals	29	**203,814**	200,730
Interest-bearing bank borrowings	32	**280,000**	143,000
Tax payable		**769**	769
Provisions	30	**13,343**	13,015
Total current liabilities		**994,617**	912,122
NET CURRENT ASSETS		**1,154,697**	645,407
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,964,435**	2,494,772

	Notes	**2007**	2006
		RMB'000	*RMB'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	32	**194,000**	74,000
Deferred income	34	**97,010**	27,680
Financial guarantee contracts		**25,000**	32,000
Deferred tax liabilities	33	**21,570**	47,850
Provisions	30	**17,164**	23,270
Total non-current liabilities		**354,744**	204,800
Net assets		**2,609,691**	2,289,972
EQUITY			
Issued capital	35	**845,900**	785,000
Reserves	36(b)	**1,738,414**	1,504,972
Proposed final dividend	12	**25,377**	—
Total equity		**2,609,691**	2,289,972

Liu Dagong
Director

Yan Linjiao
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2007

1. CORPORATE INFORMATION

First Tractor Company Limited is a limited liability company established 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 engaged 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 pumps and fuel jets

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, 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.

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. 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.

The acquisition 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. An acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of net assets acquired is recognised as an equity transaction.

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 interpretations has had no material effect on these financial statements.

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 Amendment	Capital Disclosures
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

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/ revised where appropriate.

(b) Amendment to HKAS 1 Presentation of Financial Statements- Capital Disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 46 to the financial statements.

(c) HK(IFRIC)-Int 8 Scope of HKFRS 2

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Group has not issued any equity instruments to its employees, the interpretation has had no effect on these financial statements.

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

(d) HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC)-Int 10 Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

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.

HKFRS 2 Amendments	Share-based Payments — Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[5]
HKFRS 8	Operating Segments[1]
HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[5]
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions[2]
HK(IFRIC)-Int 12	Service Concession Arrangements[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[3]
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 January 2008
5 Effective for annual periods beginning on or after 1 July 2009

HKFRS 2 restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that such award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results. The changes introduced by the revised standard must be applied prospectively and will affect future acquisitions and transactions with minority interest.

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

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

HKAS 1 (Revised) will affect the presentation of owner changes in equity and comprehensive income. The revised standard will use "statement of financial position" and "statement of cash flows" to replace the titles "balance sheet" and "cash flow statement", and in making reference to these two statements within a complete set of financial statements.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary be accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by subsidiaries as well as the loss of control of a subsidiary. The changes introduced by the revised standard must be applied prospectively and will affect future acquisitions and transactions with minority interest.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also address the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any impact on the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial assets and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

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

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS19 Employee Benefits on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. Up to the date of this report, it has concluded that 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Joint ventures *(continued)*

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.

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 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. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except when unrealised losses provide evidence of an impairment of the assets transferred.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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. The Group performs its annual impairment test of goodwill as at 31 December. 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.

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

Goodwill previously eliminated against retained profits

Prior to the adoption of the 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 (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

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 the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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, but 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 the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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 assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the 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. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

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 less any allowance for impairment. 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. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. Gains and losses are recognised in the income statement when the 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. Interest and dividends earned are reported as interest income and dividend income, respectively, and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

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. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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 by adjusting the allowance account. 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.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivables is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

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. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. 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 bank borrowings)

Financial liabilities including trade and other payables, amount due to the holding company and interest-bearing bank 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. The related interest expense is recognised within "finance costs" in the income statement.

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 less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, 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 recognised in the income statement.

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 the relevant fees and expenses.

Inventories

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

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 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 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 installments.

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 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 the relevant municipal governments in the PRC. The municipal governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further 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 the possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

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

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2007 was RMB52,990,000 (2006: RMB52,990,000). More details are given in note 16.

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

Estimation uncertainty *(continued)*

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated. The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount.

Impairment of receivables

The policy for impairment of receivables of the Group is based on the evaluation of the collectability and aged analysis of trade receivables and on the judgement of management. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of the customers. Management reassesses the estimation at each balance sheet date.

Provision for obsolete inventories

Management reviews the condition of the inventories of the Group and makes provision for identified obsolete and slow-moving inventory items that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at each balance sheet date and makes provision for obsolete items. Management reassesses the estimation at each 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 include the unit rate charged by repair centres, the number of units of products and components already sold which may require repairs and maintenance, and the miscellaneous expenditures which may be incurred.

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

Estimation uncertainty *(continued)*

Provision for early retirement benefits

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

Income tax

The Group is subject to income taxes in various regions within Mainland China. 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.

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. Further details of deferred tax assets are disclosed in note 33 to the financial statements.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available for sale and recognises movements in their fair values in equity. When the fair values decline, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2007, impairment losses of RMB2,123,000 (2006: RMB2,123,000) have been recognised for available-for-sale assets. The carrying amount of available-for-sale assets at 31 December 2007 was RMB187,150,000 (2006: RMB251,399,000) (note 19).

4. SEGMENT INFORMATION

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

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products 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, and related parts and components;

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

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

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

(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.

4. SEGMENT INFORMATION *(continued)*

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 2007 and 2006.

Group	Agricultural machinery		Construction machinery		Financial operations		Diesel engines and fuel jets		Others		Eliminations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	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	**4,666,285**	4,699,191	**1,480,082**	1,198,603	**—**	—	**629,067**	203,614	**—**	43	**—**	—	**6,775,434**	6,101,451
Intersegment revenue	**401,570**	321,956	**23,489**	28,358	**18,027**	19,206	**369,074**	158,062	**—**	—	**(812,160)**	(527,582)	**—**	—
Other income and gains	**—**	—	**—**	—	**28,780**	31,864	**—**	—	**—**	—	**—**	—	**28,780**	31,864
Total	**5,067,855**	5,021,147	**1,503,571**	1,226,961	**46,807**	51,070	**998,141**	361,676	**—**	43	**(812,160)**	(527,582)	**6,804,214**	6,133,315
Segment results	**113,110**	148,020	**(69,650)**	(72,642)	**26,802**	35,112	**89,300**	(1,179)	**(139)**	(4,609)	**—**	—	**159,423**	104,702
Interest, dividend and investment income													**131,695**	8,691
Gain on disposal of a subsidiary													**90**	—
(Provision)/reversal of provision for impairment of other receivable													**14,220**	(5,000)
Unallocated expenses													**(23,386)**	(6,160)
Finance costs													**(31,589)**	(16,593)
Share of profits and losses of associates	**—**	—	**—**	—	**—**	—	**—**	—	**(12,649)**	1,827	**—**	—	**(12,649)**	1,827
Profit before tax													**237,804**	87,467
Tax													**(40,024)**	(15,251)
Profit for the year													**197,780**	72,216

NOTES TO FINANCIAL STATEMENTS

31 December 2007

4. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

Group	Agricultural machinery		Construction machinery		Financial operations		Diesel engines and fuel jets		Others		Eliminations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	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*
Assets and liablities														
Segment assets	**3,107,233**	2,412,533	**1,092,364**	1,016,994	**1,124,090**	1,104,229	**832,945**	870,929	**41,527**	74,891	**(1,063,663)**	(890,767)	**5,134,496**	4,588,809
Interests in associates	**—**	—	**—**	—	**—**	—	**—**	—	**19,800**	20,449	**—**	—	**19,800**	20,449
Unallocated assets													**333,787**	381,964
Total assets													**5,488,083**	4,991,222
Segment liabilities	**1,064,973**	1,094,414	**872,082**	801,146	**597,702**	559,573	**423,329**	367,894	**102,633**	104,886	**(1,063,663)**	(890,767)	**1,997,056**	2,037,146
Unallocated liabilities													**738,134**	586,027
Total liabilities													**2,735,190**	2,623,173
Other segment information:														
Capital expenditure	**155,581**	138,863	**24,640**	24,962	**206**	88	**17,043**	15,839	**—**	1,236	**—**	—	**197,470**	180,988
Depreciation	**57,379**	63,033	**28,774**	19,749	**398**	523	**28,842**	13,685	**—**	374	**—**	—	**115,393**	97,364
Provision for warranties	**23,457**	19,519	**4,240**	4,352	**—**	—	**17,472**	13,168	**—**	—	**—**	—	**45,169**	37,039
Impairment of items of property, plant and equipment, net	**2,500**	(11,392)	**12,000**	15,000	**—**	—	**—**	—	**—**	3,985	**—**	—	**14,500**	7,593
Provision for impairment of trade receivables, net	**3,459**	(7,801)	**19,069**	14,887	**—**	—	**1,336**	(1,433)	**—**	242	**—**	—	**23,864**	5,895
Provision/(reversal of provision) for obsolete inventories, net	**(990)**	(772)	**(4,868)**	(10,810)	**—**	—	**2,092**	(824)	**—**	503	**—**	—	**(3,766)**	(11,903)
Net charge for impairment losses of loans receivable	**—**	—	**—**	—	**3,855**	(353)	**—**	—	**—**	—	**—**	—	**3,855**	(353)

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Notes	2007 RMB'000	2006 RMB'000
Revenue			
Sale of goods		**6,775,434**	6,101,451
Other income			
Bank interest income	6	**10,458**	5,310
Interest income from financial operations	6	**28,781**	29,592
Profit from sundry sales		**24,348**	35,622
Rental income	6	**7,194**	6,075
Dividend income from listed investments	6	**270**	2,000
Dividend income from unlisted investments	6	**3,850**	665
Government grants	34	**3,898**	—
Others		**20,154**	22,783
		98,953	102,047
Gains			
Gain on disposal of items of property, plant and equipment, net	6	**—**	3,953
Gain on disposal of a subsidiary	6, 37	**90**	—
Fair value gains on listed equity investments at fair value through profit or loss, net	6	**7,565**	716
Gain on disposal of listed equity investments at fair value through profit or loss, net	6	**35,772**	—
Gain on disposal of available-for-sale investments	6	**73,780**	—
		117,207	4,669
		216,160	106,716

6. PROFIT BEFORE TAX

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

	Notes	**2007** **RMB'000**	2006 RMB'000
Cost of inventories sold		**5,976,022**	5,509,093
Depreciation	14	**115,393**	97,364
Amortisation of prepaid land premiums	15	**742**	553
Impairment of items of property, plant and equipment*	14	**14,500**	7,593
Employee benefits expense (excluding directors' and supervisors' remuneration — note 8):			
Wages and salaries		**388,426**	355,158
Pension scheme contributions**		**59,095**	79,692
Provision/(reversal of provision) for early retirement benefits	30	**12,418**	(6,397)
		459,939	428,453
Minimum lease payments under operating leases:			
Land and buildings		**19,753**	14,653
Plant and machinery		**—**	1,272
		19,753	15,925
Research and development costs		**138,873**	65,551
Auditors' remuneration		**7,280**	4,900
Provision for impairment of trade receivables, net	22	**23,864**	5,895
Provision/(reversal of provision) for impairment of other receivables, net	24	**(15,036)**	5,000

6. PROFIT BEFORE TAX *(continued)*

	Notes	2007 RMB'000	2006 RMB'000
Provision for warranties	30	**45,169**	37,039
Net charge for impairment losses of loans receivable	20	**3,855**	(353)
Net charge for impairment losses of bills discounted receivable	23	**(1,652)**	527
Interest expense on financial operations		**5,632**	5,882
Reversal of provision for obsolete inventories, net		**(3,766)**	(11,903)
(Gain)/loss on disposal of items of property, plant and equipment, net	5	**1,862**	(3,953)
Fair value gains on listed equity investments at fair value through profit or loss, net	5	**(7,565)**	(716)
Gain on disposal of listed equity investments at fair value through profit or loss, net	5	**(35,772)**	—
Gain on disposal of available-for-sale investments	5	**(73,780)**	—
Gain on disposal of a subsidiary	5, 37	**(90)**	—
Foreign exchange differences, net		**6,944**	1,719
Dividend income from unlisted investments	5	**(3,850)**	(665)
Dividend income from listed investments	5	**(270)**	(2,000)
Bank interest income	5	**(10,458)**	(5,310)
Interest income from financial operations	5	**(28,781)**	(29,592)
Gross rental income	5	**(7,194)**	(6,075)

* The impairment of items of property, plant and equipment are included in "Other expenses" on the face of the consolidated income statement.

** At 31 December 2007, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2006: Nil).

7. FINANCE COSTS

	Group	
	2007	2006
	RMB'000	*RMB'000*
Interest on bank and other loans wholly repayable within five years	**40,868**	16,593
Less: Interest capitalised	**(9,279)**	—
	31,589	16,593

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	
	2007	2006
	RMB'000	*RMB'000*
Fees	**—**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**820**	703
Performance related bonuses	**415**	350
Pension scheme contributions	**245**	235
	1,480	1,288
	1,480	1,288

(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 (2006: Nil).

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

(b) Executive directors and supervisors

2007	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	—	63	32	19	114
Mr. Liu Wenying	—	63	32	19	114
Mr. Zhao Yanshui	—	63	32	19	114
Mr. Yan Linjiao	—	63	32	19	114
Mr. Li Tengjiao	—	63	32	19	114
Mr. Shao Haichen	—	63	32	19	114
Mr. Zhang Jing	—	63	32	19	114
Mr. Li Youji	—	63	32	19	114
Mr. Liu Shuangcheng	—	63	32	19	114
Mr. Zhao Fei	—	63	32	19	114
	—	630	320	190	1,140
Supervisors:					
Mr. Xu Weilin	—	38	19	11	68
Mr. Shao Jianxin	—	38	19	11	68
Mr. Zhao Shengyao	—	38	19	11	68
Mr. Kong Lingfu	—	38	19	11	68
Mr. Zheng Luyu	—	38	19	11	68
	—	190	95	55	340
	—	820	415	245	1,480

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

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

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

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 (2006: five) non-director and non-supervisor employees, details of whose remuneration are as follows:

	Group	
	2007	2006
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**1,533**	857
Performance related bonuses	**—**	—
Pension scheme contributions	**307**	194
	1,840	1,051

None of the highest paid employees (2006: Nil) for the year are directors nor supervisors of the Company, details of whose remuneration are set out in note 8 above.

The remuneration of the five (2006: five) non-director, highest paid employees fell within the band of nil to RMB1,000,000.

10. TAX

	2007	2006
	RMB'000	*RMB'000*
Group:		
Current — PRC corporate income tax		
Charge for the year	**35,676**	15,887
Overprovision in prior years	**(1,594)**	(127)
Deferred tax *(note 33)*	**5,942**	(509)
Total tax charge for the year	**40,024**	15,251

The PRC corporate income tax for the Company and the majority of its subsidiaries is calculated at rates ranging from 15% to 33% (2006: 10% to 33%) on their estimated assessable profits for the year, based on existing legislation, interpretations and practices in respect thereof.

In March 2007, the PRC government announced unified tax rate arrangements among different types of PRC entities which result in a reduction of tax rate from 33% to 25% with effect from 1 January 2008, the effect of this change has been dealt with in the calculation of deferred taxation at 31 December 2007.

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 2007 and 2006.

Profits tax of the subsidiary operating outside Mainland China is subject to the rates applicable within the jurisdiction in which it operates. No provision for overseas profits tax has been made for the Group as there were no assessable profits for the year (2006: Nil).

10. TAX *(continued)*

A reconciliation of the tax expense applicable to profit 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			
	2007		2006	
	RMB'000	**%**	*RMB'000*	%
Profit before tax	**237,804**		87,467	
Tax at the PRC statutory tax rate	**78,475**	**33**	28,864	33
Entities subject to lower statutory income tax rates	**(14,071)**	**(6)**	(14,069)	(16)
Effect on deferred tax due to the change in PRC statutory tax rate	**5,638**	**2**	—	—
Adjustments in respect of current tax of previous periods	**(1,594)**	**(1)**	(127)	—
Profits and losses attributable to associates	**4,174**	**2**	(603)	(1)
Income not subject to tax	**(22,207)**	**(9)**	(8,344)	(10)
Expenses not deductible for tax	**13,396**	**6**	29,998	35
Tax losses utilised from previous periods	**(1,409)**	**(1)**	(35,731)	(41)
Tax losses not recognised	**23,750**	**10**	15,263	17
Others*	**(46,128)**	**(19)**	—	—
Tax charge at the Group's effective rate	**40,024**	**17**	15,251	17

* Others mainly comprised income tax benefits on locally purchased machineries.

The share of tax attributable to associates included in "Share of profits and losses of associates" on the face of the consolidated income statement for the year ended 31 December 2007 was nil (2006: RMB14,283,000). The PRC corporate income tax of the associates is calculated at the rate of 33% (2006: 15% to 33%) on the respective associates' assessable profits determined in accordance with the relevant PRC laws and regulations.

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 2007 includes a profit of RMB130,160,000 (2006: RMB99,740,000) which has been dealt with in the financial statements of the Company (note 36(b)).

12. DIVIDENDS

	2007	2006
	RMB'000	*RMB'000*
Proposed final — RMB3 cents (2006: Nil) per ordinary share	**25,377**	—

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

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of RMB181,762,000 (2006: RMB72,849,000) and the weighted average of 796,346,000 (2006: 785,000,000) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31 December 2007 and 2006 have not been disclosed as no diluting events existed during either years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Plant, machinery and equipment	Transportation vehicles and equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2007					
At 31 December 2006 and at 1 January 2007:					
Cost	990,175	1,520,824	62,064	234,280	2,807,343
Accumulated depreciation and impairment	(554,889)	(986,886)	(25,591)	(7,737)	(1,575,103)
Net carrying amount	435,286	533,938	36,473	226,543	1,232,240
At 1 January 2007, net of accumulated depreciation and impairment	435,286	533,938	36,473	226,543	1,232,240
Additions	3,839	16,655	3,798	162,254	186,546
Transfer (from)/to	49,333	110,581	1,415	(161,329)	—
Disposals	(9,624)	(15,216)	(4,865)	—	(29,705)
Disposal of a subsidiary *(note 37)*	—	(2,733)	—	—	(2,733)
Depreciation provided during the year	(28,706)	(80,941)	(5,746)	—	(115,393)
Impairment	(7,991)	(5,171)	(1,338)	—	(14,500)
At 31 December 2007, net of accumulated depreciation and impairment	442,137	557,113	29,737	227,468	1,256,455
At 31 December 2007:					
Cost	1,015,230	1,586,769	56,558	235,043	2,893,600
Accumulated depreciation and impairment	(573,093)	(1,029,656)	(26,821)	(7,575)	(1,637,145)
Net carrying amount	442,137	557,113	29,737	227,468	1,256,455

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

Group

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2006					
At 1 January 2006:					
Cost	833,481	1,232,133	56,029	165,622	2,287,265
Accumulated depreciation and impairment	(473,390)	(841,638)	(21,472)	(14,002)	(1,350,502)
Net carrying amount	360,091	390,495	34,557	151,620	936,763
At 1 January 2006, net of accumulated depreciation and impairment	360,091	390,495	34,557	151,620	936,763
Additions	6,066	12,035	1,474	154,429	174,004
Transfer (from)/to	63,553	75,536	6,637	(145,726)	—
Acquisition of subsidiaries	46,980	200,197	4,310	60,885	312,372
Disposals	(6,241)	(75,384)	(4,317)	—	(85,942)
Depreciation provided during the year	(26,944)	(66,042)	(4,378)	—	(97,364)
Impairment	(8,219)	(2,899)	(1,810)	5,335	(7,593)
At 31 December 2006, net of accumulated depreciation and impairment	435,286	533,938	36,473	226,543	1,232,240
At 31 December 2006:					
Cost	990,175	1,520,824	62,064	234,280	2,807,343
Accumulated depreciation and impairment	(554,889)	(986,886)	(25,591)	(7,737)	(1,575,103)
Net carrying amount	435,286	533,938	36,473	226,543	1,232,240

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

Company

	Buildings	Plant, machinery and equipment	Transportation vehicles and equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2007					
At 31 December 2006 and 1 January 2007:					
Cost	618,219	846,608	19,340	210,143	1,694,310
Accumulated depreciation and impairment	(399,451)	(610,098)	(8,346)	(7,182)	(1,025,077)
Net carrying amount	218,768	236,510	10,994	202,961	669,233
At 1 January 2007, net of accumulated depreciation and impairment	218,768	236,510	10,994	202,961	669,233
Additions	—	665	—	115,686	116,351
Transfer (from)/to	18,083	93,588	1,082	(112,753)	—
Disposals	(7,499)	(4,343)	(105)	—	(11,947)
Depreciation provided during the year	(15,964)	(37,272)	(1,561)	—	(54,797)
At 31 December 2007, net of accumulated depreciation and impairment	213,388	289,148	10,410	205,894	718,840
At 31 December 2007:					
Cost	611,363	914,029	19,173	213,076	1,757,641
Accumulated depreciation and impairment	(397,975)	(624,881)	(8,763)	(7,182)	(1,038,801)
Net carrying amount	213,388	289,148	10,410	205,894	718,840

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

Company

	Buildings	Plant, machinery and equipment	Transportation vehicles and equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2006					
At 1 January 2006:					
Cost	599,384	1,037,585	19,465	152,233	1,808,667
Accumulated depreciation and impairment	(384,731)	(739,029)	(9,867)	(13,608)	(1,147,235)
Net carrying amount	214,653	298,556	9,598	138,625	661,432
At 1 January 2006, net of accumulated depreciation and impairment	214,653	298,556	9,598	138,625	661,432
Additions	—	5,632	—	129,158	134,790
Transfer (from)/to	23,343	42,238	4,738	(70,319)	—
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	—	5,497	11,392
At 31 December 2006, net of accumulated depreciation and impairment	218,768	236,510	10,994	202,961	669,233
At 31 December 2006:					
Cost	618,219	846,608	19,340	210,143	1,694,310
Accumulated depreciation and impairment	(399,451)	(610,098)	(8,346)	(7,182)	(1,025,077)
Net carrying amount	218,768	236,510	10,994	202,961	669,233

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

Where funds have been borrowed and used for the purpose of obtaining qualifying assets, a capitalisation rate of 6.7% has been applied to the expenditure on the individual assets.

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

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

At 31 December 2007, certain of the Group's buildings and machinery with an aggregate net carrying value of approximately RMB62,321,000 (2006: RMB91,009,000) were pledged to secure certain short term bank loans granted to the Group (note 32(i)).

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

	2007	2006
	RMB'000	*RMB'000*
Construction machinery segment	**12,000**	15,000
Agricultural machinery segment	**2,500**	(11,230)
Other segments	**—**	3,823
	14,500	7,593

Note: Due to the sustained losses of the construction machinery segment during the current and prior years, 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 relevant cash-generating unit mainly consists of the property, plant and equipment of Yituo (Luoyang) Building Machinery Co., Ltd. ("YBMC") and Yituo (Luoyang) Construction Machinery Co., Ltd. ("YCMC"), subsidiaries of the Company. In determining value in use for the cash-generating unit, the cash flows were discounted at a rate of 8% (2006: 6%) based on the weighted average cost of capital.

15. PREPAID LAND PREMIUMS

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Carrying amount at 1 January	**20,192**	13,761	**2,023**	2,092
Additions	**10,924**	6,984	**—**	—
Amortisation recognised during the year	**(742)**	(553)	**(68)**	(69)
Carrying amount at 31 December	**30,374**	20,192	**1,955**	2,023

The leasehold land is held under a medium term lease and is situated in Mainland China.

At 31 December 2007, certain of the Group's prepaid land premiums with an aggregate net carrying value of approximately RMB8,095,000 (2006: RMB8,304,000) were pledged to secure bank loans granted to the Group (note 32(iii)).

16. GOODWILL

	Group	
	2007	2006
	RMB'000	*RMB'000*
Cost at 1 January	**52,990**	—
Acquisition of subsidiaries	**—**	52,990
Impairment during the year	**—**	—
Cost and carrying amount at 31 December	**52,990**	52,990
Cost	**52,990**	52,990
Accumulated impairment	**—**	—
Net carrying amount	**52,990**	52,990

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 8% (2006: 6.5%), which is based on the weighted average cost of capital. The growth rate used for the five-year period is based on prudence estimation by management estimated to be 5%. (2006: 4%-5%). The key assumptions are as follows:

(a) the expected growth demand from the 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 in current and prior years.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2007	2006
	RMB'000	*RMB'000*
Unlisted investments, at cost	**1,014,668**	940,565
Financial guarantees granted to subsidiaries	**32,000**	32,000
Impairment#	**(123,295)**	(57,302)
	923,373	915,263

An impairment was recognised for certain unlisted investments because these unlisted investments have recorded operating losses. The movements in impairment of interests in subsidiaries are as follows:

	Company	
	2007	2006
	RMB'000	*RMB'000*
At 1 January	**57,302**	53,695
Impairment losses recognised	**69,600**	3,607
Amount written off as disposal	**(3,607)**	—
	123,295	57,302

The loans to subsidiaries of RMB171,400,000 (2006: RMB68,000,000) with an impairment of nil (2006: RMB2,000,000) included in the Company's current assets, which are granted in the form of designated deposits through a subsidiary financial institution of the Company, are unsecured, bear interest at rates ranging from 5.58% to 7.29% (2006: 5.31% to 6.12%) per annum, and are repayable within one year.

The amounts due from subsidiaries of RMB114,277,000 (2006: RMB118,777,000) included in the Company's current assets are unsecured and interest-free, and are repayable on demand or within one year.

Deposits in a subsidiary are deposits placed by the Company in a subsidiary financial institution. Except for a one-year time deposit of RMB10 million placed therein which bears interest at a rate of 2.79% per annum, all deposits placed therein bear interest at a rate of 0.72% per annum and are repayable on demand.

17. INTERESTS IN SUBSIDIARIES *(continued)*

The trading balances with subsidiaries are included in notes 22, 28 and 29 to the financial statements.

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 Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Brilliance China Machinery Holdings Limited 華晨中國機械控股有限公司	Bermuda	US$12,000	90.1	—	Investment holding
Yituo (Luoyang) Construction Machinery Co., Ltd.("YCMC")+ 一拖(洛陽)工程機械有限公司	PRC/ Mainland China	US$17,900,000	49	46	Manufacture and sale of construction machinery
Yituo (Luoyang) Building Machinery Co., Ltd. ("YBMC")+ 一拖(洛陽)建築機械有限公司	PRC/ 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	PRC/ Mainland China	RMB500,000	99	—	Trading of tractors
Yituo Shenyang Tractor Company Limited* # 一拖瀋陽拖拉機有限公司	PRC/ 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	PRC/ Mainland China	US$1,000,000	—	53.2	Manufacture and sale of road construction machinery

17. INTERESTS IN SUBSIDIARIES *(continued)*

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

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Zhenjiang Huachen Huatong Road Machinery Company Limited ("ZHHRM")+ 鎮江華晨華通路面機械有限公司	PRC/ 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	PRC/ Mainland China	RMB49,295,000	93.9	—	Manufacture and sale of agricultural harvesting machinery
Luoyang Changhong High Technology Trading Company Limited*# 洛陽高新長宏工貿有限公司	PRC/ 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	PRC/ 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	PRC/ Mainland China	RMB18,303,000	35	—	Manufacture and sale of road rollers
Yituo (Luoyang) Shentong Construction Machinery Company Limited ("YLST")*# — *(note (ii))* 一拖(洛陽)神通工程機械有限公司	PRC/ Mainland China	RMB13,000,000	50	—	Manufacture and sale of construction machinery

17. INTERESTS 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) Lutong Construction Machinery Company of Limited ("YLLT")*# — *(note (iii))* 一拖(洛陽)路通工程機械有限公司	PRC/ Mainland China	RMB52,200,000	—	48.5	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	PRC/ Mainland China	RMB8,000,000	40	47	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	PRC/ 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	PRC/ Mainland China	RMB10,000,000	73	—	Manufacture and sale of agricultural machinery and tools
Yituo (Luoyang) Diesel Co., Ltd. ("YLDC")*+ 一拖(洛陽)柴油機有限公司	PRC/ Mainland China	RMB51,718,205	58.8	22.5	Manufacture and sale of diesel engines
Yituo (Louyang) Fuel Jet Co., Ltd. ("YLFJ")*# 一拖(洛陽)燃油噴射有限公司	PRC/ Mainland China	RMB52,000,000	77	14.6	Manufacture and sale of fuel injection pumps and fuel jets

17. INTERESTS IN SUBSIDIARIES *(continued)*

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

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Yituo (Luoyang) Engines machinery Company Limited ("YEMC")*# 一拖(洛陽)動力機械有限公司	PRC/ Mainland China	RMB38,000,000	42	40.7	Manufacture and sale of diesel engines
Yituo (Luoyang) Transportation Machinery Co., Ltd. ("YLTM")*# 一拖(洛陽)搬運機械有限公司	PRC/ Mainland China	RMB55,880,000	91.1	—	Manufacture and sale of fork lifts
Yituo (Louyang) Fork Lift Trading Co., Ltd. ("YLFT")*# 一拖(洛陽)叉車銷售有限公司	PRC/ Mainland China	RMB800,000	—	91.1	Sale of fork lifts
Louyang Qirui Steel Casting Company Ltd ("LQSC")*# — *(note (iv))* 洛陽市齊瑞鑄鋼有限公司	PRC/ Mainland China	RMB4,010,000	—	30.4	Manufacture and sale of steel and forging products
YTO (Xinjiang) Dongfanghong Machining Co., Ltd.*#ϕ 一拖(新疆)東方紅裝備機械有限公司	PRC/ Mainland China	RMB25,000,000	100	—	Manufacture and sale of tractors, parts and components

17. INTERESTS IN SUBSIDIARIES *(continued)*

Notes:

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

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

(iii) YBMC, a 95%-owned subsidiary of the Group, owned a 51% equity interest in YLLT. Thus, the Group can exercise control over the financial and operating policies of YLLT.

(iv) In according with LQSC's minutes of shareholders' meeting, certain shareholders of LQSC agreed to vote for YBMC, a subsidiary of the Group, such that YBMC secured voting rights exceeding 50% of the voting rights eligible to cast in the shareholders' meeting of LQSC. In this regard, LQSC was consolidated in preparation of the financial statements.

* 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

ϕ Newly established 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.

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18. INTERESTS/INVESTMENTS IN ASSOCIATES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted shares, at cost	**—**	—	**113,800**	106,800
Share of net assets	**19,800**	20,449	**—**	—
	19,800	20,449	**113,800**	106,800
Provision for impairment	**—**	—	**(93,085)**	(86,000)
	19,800	20,449	**20,715**	20,800

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 and 29 to the financial statements.

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

Particulars of the principal associates at 31 December 2007 are as follows:

Name	Particulars of issued shares held	Place of registration	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Luoyang First Motors Company Limited ("LFMC")* 洛陽福賽特汽車股份有限公司	Registered capital of RMB1 each	Mainland China	29.5	—	Design, manufacture and sale of vehicles and related accessories
YTO Shunxing (Luoyang) Spare Parts Co., Ltd.* 一拖順興(洛陽)零部件有限公司	Registered capital of RMB1 each	Mainland China	40	—	Manufacture, sale and service of forged steel crankshafts

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

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

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:

	2007	2006
	RMB'000	*RMB'000*
Assets	**97,178**	291,411
Liabilities	**38,979**	232,351
Revenues	**50,182**	467,802
Loss	**(42,376)**	(70,527)

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19. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Listed equity investments in Mainland China, at fair value	**64,189**	—	**36,799**	—
Unlisted equity investments, at cost	**56,322**	25,922	**25,663**	25,663
Provision for impairment	**(2,123)**	(2,123)	**(2,123)**	(2,123)
	54,199	23,799	**23,540**	23,540
Unlisted equity investments, at fair value	**68,762**	227,600	**68,762**	197,600
	187,150	251,399	**129,101**	221,140

During the year, the gross gain of the Group's and the Company's available-for-sale investments recognised directly in equity amounted to RMB29 million (2006: RMB145 million) and RMB15 million (2006: RMB145 million) respectively, of which RMB74 million (2006: Nil) and RMB74 million (2006: Nil) was removed from equity and recognised in the income statement for the year.

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

2007	*Notes*	**Gross amount** *RMB'000*	**Provisions** *RMB'000*	**Net** *RMB'000*
Loans to the Holding	(i)	252,800	4,803	247,997
Loans to related companies	(iii)	24,503	5,107	19,396
Loans to customers	(iv)	12,794	2,418	10,376
		290,097	12,328	277,769
Portion classified as current assets		(205,255)	(11,040)	(194,215)
Long term portion		84,842	1,288	83,554

2006	*Notes*			
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

20. LOANS RECEIVABLE *(continued)*

Notes:

(i) The loans to the Holding are granted by FTGF, and are unsecured, bear interest rates in the range of 6.39% to 6.56% (2006: 6.3%) per annum and are repayable within one to five years (2006: one to three years).

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

(iii) The loans to related companies represent the loans granted by FTGF to the companies over which the Holding has significant influence. These loans are unsecured, bear interest at rates ranging from 6.67% to 9.11% (2006: 5.85% to 7.98%) per annum and are repayable within one to five years (2006: one year).

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

The movements in impairment during the year are as follows:

	Group	
	2007	2006
	RMB'000	*RMB'000*
Balance at 1 January	**8,473**	8,826
Net provisions charged/(credited) to the income statement *(note 6)*	**3,855**	(353)
Balance at 31 December	**12,328**	8,473

20. LOANS RECEIVABLE *(continued)*

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	
	2007	2006
	RMB'000	*RMB'000*
Repayable:		
Within three months	**125,855**	28,360
Within one year but over three months	**79,400**	153,451
Within five years but over one year	**83,266**	146,057
Over five years	**1,576**	2,124
	290,097	329,992

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

21. INVENTORIES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials	**177,470**	185,257	**51,035**	52,227
Work in progress	**268,199**	248,075	**122,682**	126,312
Finished goods	**374,438**	397,626	**104,235**	115,013
Spare parts and consumables	**21,693**	21,408	**16,747**	16,480
	841,800	852,366	**294,699**	310,032

22. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bills receivable	**380,118**	243,176	**232,422**	99,339
Trade receivables	**723,058**	671,912	**342,678**	280,694
Impairment	**(177,230)**	(170,314)	**(13,352)**	(13,897)
	925,946	744,774	**561,748**	366,136

The Group's trading terms with its customers are mainly on credit, where payment in advance from customers is normally required. The credit periods granted to its customers are 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	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 90 days	**654,962**	459,454	**406,577**	266,242
91 days to 180 days	**162,067**	192,322	**123,713**	82,482
181 days to 365 days	**73,205**	65,324	**20,544**	10,141
1 to 2 years	**32,681**	22,581	**8,441**	4,580
Over 2 years	**3,031**	5,093	**2,473**	2,691
	925,946	744,774	**561,748**	366,136

22. TRADE AND BILLS RECEIVABLES *(continued)*

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

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**170,314**	170,687	**13,897**	27,095
Acquisition of subsidiaries	**—**	14,813	**—**	—
Impairment/(reversal of impairment) during the year *(note 6)*	**23,864**	5,895	**2,053**	(6,552)
Amounts written off as uncollectible	**(16,642)**	(21,081)	**(2,598)**	(6,646)
Disposal of a subsidiary	**(306)**	—	**—**	—
	177,230	170,314	**13,352**	13,897

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB77 million (2006: RMB75 million) with a carrying amount of RMB77 million (2006: RMB75 million). The individually impaired trade receivables relate to customers that were in financial difficulties and the receivables is not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

Impairment allowances have been assessed on the trade receivables either individually for individually significant trade receivable balances or collectively for trade receivables portfolio with similar credit risk characteristics.

At 31 December 2007, certain of the Group's and the Company's bills receivable of RMB57,035,000 (2006: RMB75,282,000) and RMB30,000,000 (2006: RMB10,000,000), respectively, 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 RMB383,000 (2006: RMB18,826,000) and nil (2006: RMB8,729,000), respectively.

Included in the trade and bills receivables of the Group and the Company are trade receivables from associates aggregating approximately RMB4,123,000 (2006: RMB14,043,000) and RMB1,996,000 (2006: RMB12,053,000), respectively.

Included in the trade and bills receivables of the Company are trade receivables from subsidiaries of approximately RMB173,906,000 (2006: RMB145,595,000).

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 for the current year are approximately RMB53,559,000 (2006: RMB192,030,000) attributable to the Holding and approximately RMB693,000 (2006: Nil) attributable to related companies.

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

	Group	
	2007	2006
	RMB'000	*RMB'000*
Maturing :		
Within three months	**6,619**	120,619
Within six months but over three months	**50,000**	101,160
	56,619	221,779
Less: Impairment allowance for bills discounted receivable	**(566)**	(2,218)
	56,053	219,561

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

	Group	
	2007	2006
	RMB'000	*RMB'000*
Balance at 1 January	**2,218**	1,691
Net provisions charged/(credited) to the income statement *(note 6)*	**(1,652)**	527
Balance at 31 December	**566**	2,218

Except for immaterial amount of impaired bills discounted receivable, the bills discounted receivable is neither past due nor impaired. The balances relate to receivables for which there was no recent history of default.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments, deposits and other debtors	**355,167**	237,529	**189,275**	122,108
Due from the Holding *(note 25)*	**109,221**	110,304	**1,150**	2,900
Prepaid income tax	**938**	1,795	**—**	—
	465,326	349,628	**190,425**	125,008

The above balances are net of impairment allowance. The movements in provision for impairment of other receivables are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**31,011**	27,712	**23,036**	19,873
Acquisition of subsidiaries	**—**	503	**—**	—
Impairment/(reversal of impairment) during the year *(note 6)*	**(15,036)**	5,000	**(11,999)**	3,163
Amounts written off as uncollectible	**—**	(2,204)	**—**	—
Disposal of a subsidiary	**(441)**	—	**—**	—
	15,534	31,011	**11,037**	23,036

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

Notes:

(i) Included in other debtors of the Group and the Company during the prior year were amounts due from associates totalling approximately RMB2,621,000. Such balances were unsecured and interest-free, and had no fixed terms of repayment.

(ii) Included in other debtors are other receivables due from the minority shareholders of certain subsidiaries of the Group of approximately RMB29,602,000 (2006: RMB24,559,000). Included in such balance is an amount of RMB26,152,000 (2006: RMB20,964,000) due from Jiangsu Huatong Machinery Co., Ltd. ("Huatong") (a minority shareholder of ZHHRM and ZHAM) to ZHHRM, of which RMB18,382,000 has been overdue as at the date of these financial statements. Pursuant to an agreement between Huatong and the Holding dated 27 March 2007, Huatong has agreed in writing to repay the part of balance due to ZHHRM of RMB18,382,000 by 31 December 2007 and has pledged its equity interest in ZHHRM to Holding for securing such balance of RMB18,382,000 due from Huatong, and Holding in turn guaranteed that any proceeds on disposal of such equity interest in Huatong will be solely used to compensate for any loss suffered by ZHHRM should Huatong ultimately default in payment to ZHHRM. The directors has arranged with Huatong that the other part of the balance of RMB1,700,000 due from Huatong will be set-off against a balance of same amount payable to Huatong by a subsidiary of the Group. For the remaining balance amounting to RMB6,070,000 due from Huatong, an amount of RMB4,200,000 was settled subsequent to 31 December 2007.

The directors are of the view that the outstanding balance due from Huatong is recoverable, and therefore no provision has been made in respect thereof.

Other balances are unsecured and interest-free, and have no fixed terms of repayment.

(iii) During the year ended 31 December 2007, a securities company has fully settled its balance of RMB29,220,000 owed to the Group, and accordingly, the related prior year impairment allowance of RMB14,220,000 on such receivable was fully reversed.

25. DUE FROM/TO THE HOLDING

Included in the balance due from the Holding is secured by the Holding's certain machineries with an aggregate net carrying value of approximately RMB88 million (2006: RMB98 million). Other balances are interest-free and unsecured, and have no fixed terms of repayment.

26. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2007	2006
	RMB'000	*RMB'000*
Listed equity investments, at market value:		
Hong Kong	**11,159**	3,487
Mainland China	**36,206**	—
	47,365	3,487

The above equity investments at 31 December 2007 and 2006 were classified as held for trading.

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
		2007	2006	**2007**	2006
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances — *(note (i))*		**987,148**	681,382	**346,496**	265,082
Mandatory reserve deposits with the PBOC — *(note (ii))*		**85,952**	44,874	**—**	—
Time deposits		**225,624**	162,088	**75,000**	35,452
		1,298,724	888,344	**421,496**	300,534
Less: Pledged time deposits:					
Pledged for bills payable	28	**(147,168)**	(105,270)	**(23,773)**	(10,165)
Pledged for other banking facilities		**(4,472)**	(17,170)	**—**	—
Cash and cash equivalents		**1,147,084**	765,904	**397,723**	290,369

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS *(continued)*

Notes:

(i) The balance included FTGF's deposits placed with the PBOC and other banks of approximately RMB356,437,000 (2006: RMB118,933,000) and RMB186,543,000 (2006: RMB129,514,000), 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 customer deposits placed with FTGF. Such mandatory reserve deposits are not available for use in the Group's day-to-day operations.

At the balance sheet date, the cash and bank balances of the Group denominated in HK dollar and US dollar amounted to RMB31,816,000 (2006: RMB27,787,000) and RMB31,666,000 (2006: RMB45,971,000), respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

The bank balance and pledged deposits are deposited with credit worthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

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	
	2007	2006
	RMB'000	*RMB'000*
Maturing:		
Within three months	**214,397**	149,088
Within one year but over three months	**11,227**	13,000
	225,624	162,088

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	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 90 days	**787,267**	853,712	**433,606**	384,108
91 days to 180 days	**209,153**	258,328	**42,919**	105,810
181 days to 365 days	**57,333**	84,578	**7,626**	41,187
1 to 2 years	**49,326**	39,863	**1,827**	11,606
Over 2 years	**40,986**	42,880	**10,713**	11,897
	1,144,065	1,279,361	**496,691**	554,608

The Group's bills payables amounting to approximately RMB231,117,000 (2006: RMB241,381,000) are secured by the pledge of certain of the Group's deposits amounting to approximately RMB147,168,000 (2006: RMB105,270,000).

Included in the trade and bills payables of the Group are trade payables to the Holding of approximately RMB12,093,000 (2006: RMB7,266,000).

Included in the trade and bills payables of the Company are trade payables to subsidiaries of RMB1,131,000 (2006: RMB1,298,000).

29. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2007	2006	**2007**	2006
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Accruals and other liabilities		**508,338**	363,142	**198,210**	197,830
Due to the Holding	25	**64,355**	108,448	**5,604**	2,900
Current portion of deferred income	34	**3,278**	—	**—**	—
		575,971	471,590	**203,814**	200,730

Included in other liabilities of the Group are amounts due to the minority shareholders of subsidiaries of the Group of approximately RMB29,190,000 (2006: RMB12,891,000). Such balances are unsecured and interest-free, and have no fixed terms of repayment.

Included in other liabilities of the Group and the Company during the prior year was a receipt in advance from an associate of approximately RMB490,000.

Included in other liabilities of the Company are receipts in advance from subsidiaries totalling RMB41,869,000 (2006: RMB85,670,000).

30. PROVISIONS

Group	Early retirement benefits	Product warranties	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2007	35,675	24,945	60,620
Provision for the year (note 6)	12,418	45,169	57,587
Amounts utilised during the year	(10,124)	(49,263)	(59,387)
At 31 December 2007	37,969	20,851	58,820
Portion classified as current liabilities	(13,302)	(20,851)	(34,153)
Non-current portion	24,667	—	24,667

Company	Early retirement benefits	Product warranties	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2007	32,083	4,202	36,285
Provision for the year	3,107	4,020	7,127
Amounts utilised during the year	(8,885)	(4,020)	(12,905)
At 31 December 2007	26,305	4,202	30,507
Portion classified as current liabilities	(9,141)	(4,202)	(13,343)
Non-current portion	17,164	—	17,164

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 regularly and is revised where appropriate.

31. CUSTOMER DEPOSITS

	Group	
	2007	2006
	RMB'000	*RMB'000*
Deposits from the Holding	**83,310**	85,483
Deposits from associates	**469**	1,659
Deposits from related companies	**44,903**	52,775
Deposits from customers	**2,549**	16,897
	131,231	156,814

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	
	2007	2006
	RMB'000	*RMB'000*
Repayable:		
On demand	**127,584**	142,230
Within three months	**143**	141
Within one year but over three months	**2,659**	14,443
Over one year	**845**	—
	131,231	156,814

32. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	Group 2007 RMB'000	Group 2006 RMB'000	Company 2007 RMB'000	Company 2006 RMB'000
Current						
Bank loans:						
Secured	6.57%	2008	**40,000**	54,578	**—**	—
Unsecured	5.51%-8.89%	2008	**419,900**	386,980	**280,000**	143,000
			459,900	441,558	**280,000**	143,000
Non-current						
Bank loans:						
Secured	6.7%	2012	**194,000**	74,000	**194,000**	74,000
Unsecured	6.3%-6.81%	2009	**20,000**	46,000	**—**	—
			214,000	120,000	**194,000**	74,000
			673,900	561,558	**474,000**	217,000

	Group 2007 RMB'000	Group 2006 RMB'000	Company 2007 RMB'000	Company 2006 RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**459,900**	441,558	**280,000**	143,000
In the second year	**70,000**	46,000	**50,000**	—
In the third to fifth years, inclusive	**144,000**	74,000	**144,000**	74,000
	673,900	561,558	**474,000**	217,000

All the above bank loans of the Group and the Company as at 31 December 2007 and 31 December 2006 are denominated in RMB.

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

Other interest rate information:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Fixed interest rate	**486,900**	561,558	**354,000**	217,000
Floating interest rate	**187,000**	—	**120,000**	—
	673,900	561,558	**474,000**	217,000

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

(i) certain of the Group's buildings and machinery with an aggregate net carrying value of approximately RMB62,321,000 (2006: RMB91,009,000) (note 14);

(ii) certain of the Holding's prepaid land premiums with an aggregate net carrying value of approximately RMB46,304,000 (2006: RMB28,151,000);

(iii) a subsidiary's prepaid land premiums with an aggregate net carrying value of approximately RMB8,095,000 (2006: RMB8,304,000) (note 15);

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

(v) guarantees provided by the Holding.

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 the prevailing interest rates.

33. DEFERRED TAX

Deferred tax liabilities

	Group	Company
	Revaluation of available-for-sale investments	**Revaluation of available-for-sale investments**
	RMB'000	*RMB'000*
At 1 January 2007	47,850	47,850
Deferred tax credited to equity during the year	(22,625)	(26,280)
Gross deferred tax liabilities at 31 December 2007	25,225	21,570

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

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33. DEFERRED TAX *(continued)*

Deferred tax assets

	2007			
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 2007	7,631	3,135	23,507	34,273
Deferred tax credited/(debited) to the income statement during the year *(note 10)*	(7,169)	616	611	(5,942)
Gross deferred tax assets at 31 December 2007	462	3,751	24,118	28,331

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 2007	2,750	2,760	15,396	20,906
Deferred tax debited to the income statement during the year	(2,750)	(433)	(1,969)	(5,152)
Gross deferred tax assets at 31 December 2007	—	2,327	13,427	15,754

33. DEFERRED TAX *(continued)*

Deferred tax assets *(continued)*

Group	Losses available for offset against future taxable profit	Early retirement benefits	Other deductible temporary differences	Total
	2006			
	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
Gross 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)
Gross deferred tax assets at 31 December 2006	2,750	2,760	15,396	20,906

33. DEFERRED TAX *(continued)*

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	
	2007	2006
	RMB'000	*RMB'000*
Tax losses	**245,753**	144,756
Assets provision	**50,467**	43,986
Other deductible temporary differences	**15,562**	17,830
	311,782	206,572

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 for 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. DEFERRED INCOME

The movements of deferred income in relation to government grants as stated under current and non-current liabilities are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**27,680**	—	**27,680**	—
Received during the year	**84,650**	27,680	**69,330**	27,680
Recognised as other income and gains during the year	**(3,898)**	—	**—**	—
At 31 December	**108,432**	27,680	**97,010**	27,680
Current portion included in other payables and accruals *(note 29)*	**(3,278)**	—	**—**	—
Non-current portion	**105,154**	27,680	**97,010**	27,680

35. SHARE CAPITAL

	Company	
	2007	2006
	RMB'000	*RMB'000*
Registered, issued and fully paid:		
State-owned legal person shares of RMB1.00 each	**443,910**	450,000
H shares of RMB1.00 each	**401,990**	335,000
	845,900	785,000

On 10 October 2007, the Company entered into a placing agreement with The United Bank of Switzerland ("UBS AG"), pursuant to which UBS AG agreed to act as the sole placing agent for the purpose of procuring, on a best commercial effort basis, investors to subscribe for an aggregate of 66,990,000 H shares at a price of HK$3.95 per H Share, failing which, UBS AG will purchase such placing H shares as principal in accordance with the provisions of the placing agreement. The placing H shares comprise (1) 60,900,000 H shares to be allotted and issued by the Company and (2) 6,090,000 H shares to be converted from the same number of existing domestic ordinary shares that are held by the Holding in accordance with the applicable PRC laws and regulations.

On 24 October 2007, the Company completed the placing of 66,990,000 new H shares at a price of HK$3.95 each and the share capital of the Company increased to RMB845.9 million. The proceeds from the issue of 60,900,000 H shares was RMB233 million (HK$241 million), and the excess of which over the nominal value of such 60,900,000 H shares issued amounting to RMB161 million (after deducting the share issue expenses of RMB11 million) has been credited to the share premium account of the Company. The proceeds from the sale of 6,090,000 H shares net of related expenses were RMB22 million (HK$23 million), which were fully paid to National Council for Social Security Fund. The Ministry of Commerce of the PRC approved the increase in registered capital on 25 February 2008. Registration for the relevant changes was approved by the Henan Provincial Administration of Industry and Commerce on 12 March 2008.

36. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 64 to 65 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 solely used for the collective welfare of the staff and workers of the Company.

Pursuant to the relevant laws and regulations, certain subsidiaries of the Group which are Sino-foreign joint venture registered in the PRC, certain profits of such subsidiaries are required to be and have been transferred to the reserve fund and enterprise expansion fund, which are restricted as to use.

According to the revised Company Law of the PRC effective from 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 transferred to the general surplus reserve.

During the year, Company and its subsidiaries' aggregate appropriations to the SSR, the reserve fund and the enterprise expansion fund, as dealt with in the Group's financial statements, were RMB22,125,000 (2006: RMB8,753,000), RMB500,000 (2006: RMB348,000) and nil (2006: RMB203,000), respectively.

36. RESERVES *(continued)*

(a) Group *(continued)*

The associate did not make any appropriation to the SSR in the current and prior years.

Pursuant to the relevant PRC regulations, FTGF, being a non-bank subsidiary financial institution of the Group, is required to transfer a certain amount of its profit, based on 1% of realised net profit for the year (2006: determined based on the overall unidentified loss exposure normally not lower than 1% of the ending balance of risk assets), 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.

(b) Company

	Notes	Share premium account	Statutory surplus reserve	General surplus reserve	Available-for-sale investment revaluation reserve	Retained profits/ (Accumulated losses)	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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 values of available-for-sale investments		—	—	—	97,150	—	97,150
At 31 December 2006 and at 1 January 2007		1,378,840	48,388	48,388	97,150	(67,794)	1,504,972
Issue of shares	35	171,669	—	—	—	—	171,669
Share issue expenses	35	(10,571)	—	—	—	—	(10,571)
Profit for the year		—	—	—	—	130,160	130,160
Changes in fair values of available-for-sale investments		—	—	—	(32,439)	—	(32,439)
Proposed final 2007 dividend	12	—	—	—	—	(25,377)	(25,377)
Transfers from/(to) reserves		—	12,960	—	—	(12,960)	—
At 31 December 2007		1,539,938	61,348	48,388	64,711	24,029	1,738,414

36. RESERVES *(continued)*

(b) Company *(continued)*

During the year, the Company appropriations to the SSR amounted to RMB12,960,000 (2006: Nil).

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

As at 31 December 2007, the Company has retained profits of RMB24,029,000 (2006: Nil) available for distribution by way of cash or cash in kind.

As at 31 December 2007, in accordance with the Company Law of the PRC, an amount of approximately RMB1.54 billion (2006: approximately RMB1.38 billion) standing to the credit of the Company's share premium account was available for distribution by way of future capitalisation issues.

37. DISPOSAL OF A SUBSIDIARY

On 23 February 2007, the Group entered into a disposal agreement for the disposal of a subsidiary, Guizhou Zhenning Biological Industrial Co., Ltd., to an independent third party for a consideration of RMB440,000. The principal activity of Guizhou Zhenning Biological Industrial Co., Ltd. is manufacture and sale of biochemical products.

	Notes	2007 *RMB'000*
Net assets disposed of:		
Property, plant and equipment	14	2,733
Cash and bank balances		6
Prepayments, deposits and other receivables		10
Interest-bearing bank borrowings		(2,000)
Trade and bills payables		(65)
Other payables and accruals		(184)
Minority interests		(150)
		350
Gain on disposal of a subsidiary	5, 6	90
		440
Satisfied by:		
Cash		440

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

	2007 *RMB'000*
Cash consideration	440
Cash and bank balances disposed of	(6)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	434

38. RETIREMENT BENEFITS

(a) The Group participates in various defined contribution retirement benefits schemes operated by the local municipal governments and is required to contribute 20% to 21% (2006: 21% to 23%) of the payroll costs to the schemes, out of which the pensions of the Group's retired employees are paid.

(b) In addition, the Group implemented early retirement plans for certain employees in addition to the benefits under the government-regulated defined contribution schemes as disclosed in (a) above. The benefits of the early retirement plans are estimated based on 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 opt 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 2007, ZHHRM, a subsidiary of the Group, had provided a guarantee to a bank for securing an outstanding loan of RMB14 million (31 December 2006: RMB20 million) granted to a previous customer of the Group. The borrower has defaulted in repayment of the bank loan when it was due on 28 October 2007, and currently certain receivable of RMB19 million owed to the borrower was frozen by a court order for the purpose of settlement of the bank loan. Huatong has provided a counter-guarantee to ZHHRM and has expressed to the court its willingness to use certain of its land use rights to settle the bank loan. In addition, ZHHRM has received a court order to freeze its assets amounting to RMB16 million for securing the settlement of the bank loan, and actually ZHHRM's bank balance of RMB708,540 was frozen at the date of these financial statements. After due and careful enquiry and taking into account independent PRC legal opinion, the directors are of the view that such guarantee will not have material adverse effect on the Group, and therefore no provision has been made in respect thereof.

(b) As at 31 December 2006, FTGF, a subsidiary, had given guarantees to the extent of RMB100 million to certain financial institutions for securing the loans granted to the Holding. Such guarantees were fully released during the year ended 31 December 2007.

As at 31 December 2007, the Company had given corporate guarantees of approximately RMB210 million (2006: RMB252.6 million) and RMB193 million (2006: RMB216.4 million) to FTGF and certain banks, respectively, for securing credit facilities granted by FTGF and such banks to certain subsidiaries. The facilities from FTGF and certain banks were utilised in aggregate to the extent of approximately RMB403 million (2006: RMB469 million). The fair values of such guarantees have been recognised in the Company's balance sheet.

Save as the 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 plants and machinery (note 14) under operating lease arrangements. Leases for plants and machinery are negotiated for terms ranging from one to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

At 31 December 2007, the Group and the Company had total future minimum lease receivables under operating leases with its tenants falling due as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**441**	3,751	**1,109**	3,751
In the second to fifth years, inclusive	**193**	6,394	**509**	6,394
	634	10,145	**1,618**	10,145

41. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) As lessee

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

At 31 December 2007, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		**Company**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**13,545**	12,700	**6,000**	6,017
In the second to fifth years, inclusive	**27,403**	26,766	**20,000**	21,000
After five years	**187,062**	191,356	**172,397**	177,397
	228,010	230,822	**198,397**	204,414

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	
	2007	2006	**2007**	2006
	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	**86,167**	103,720	**79,423**	84,705
Additional capital contribution into an associate	**4,000**	—	**4,000**	—
	90,167	103,720	**83,423**	116,426
Authorised, but not contracted for:				
Purchases of land use rights	**255,900**	—	**255,900**	—
Purchases of plant and machinery	**895,466**	93,549	**895,466**	65,540
Additional capital contribution into a subsidiary	**—**	—	**159,075**	159,075
Investment in a joint venture	**120,526**	16,000	**120,526**	16,000
	1,271,892	109,549	**1,430,967**	240,615
	1,362,059	213,269	**1,514,390**	357,041

43. RELATED PARTY TRANSACTIONS

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.

(a) The significant transactions carried out between the Group and the Holding group, including the subsidiaries and associates of the Holding, during the year are summarised as follows:

	Notes	2007 RMB'000	2006 RMB'000
Sale of raw materials, finished goods and components	(i)	**585,377**	533,119
Purchases of raw materials and components	(ii)	**704,844**	668,991
Purchases of utilities	(iii)	**109,356**	132,466
Fees paid for welfare and support services	(iv)	**22,848**	18,087
Purchases of transportation services	(iv)	**32,354**	38,381
Research and development expenses paid	(v)	**50,784**	35,312
Fees paid for the use of land	(vi)	**6,326**	5,000
Fees paid for the use of a trademark	(vii)	**13,526**	11,230
Rentals paid in respect of:			
Buildings	(viii)	**1,195**	1,838
Plant and machinery	(ix)	**92**	94
Rental income received in respect of:			
Buildings	(x)	**6,157**	4,980
Plant and machinery	(xi)	**—**	980
Sale of plant and machinery	(xii)	**10,609**	362
Purchases of plant and machinery	(xiii)	**2,416**	5,633
Interest income, discounted bill charges inclusive	(xiv)	**22,360**	26,949
Interest paid for customer deposits	(xv)	**1,374**	678
Service charge for a guarantee	(xvi)	**—**	1,435

The transactions disclosed above included significant transactions carried out among the Group, and YLDC (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. Subsequently, YLDC and YEMC became subsidiaries of the Group in August 2006 and thereafter such transactions were no longer disclosed. In addition, the transactions disclosed above also included the significant transactions between the Group and its associate, Yituo (Louyang) Casting & Forging Company Limited ("YLCF") (in which the Holding holds a 50% equity interest) up to November 2007. Subsequently, YLCF became a wholly-owned subsidiary of the Holding.

43. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

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

	Notes	2007 RMB'000	2006 RMB'000
Sale of raw materials and components	(i)	**55,187**	170,916
Purchases of raw materials and components	(ii)	**248,959**	216,191
Rental income received in respect of :			
Buildings	(x)	**5,644**	980
Plant and machinery	(xi)	**—**	980
Interest income, discounted bill charges inclusive	(xiv)	**581**	2,225
Interest paid for customer deposits	(xv)	**14**	37

YLDC and YEMC became subsidiaries of the Group in August 2006, and such transactions were no longer disclosed subsequent to August 2006.

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

	Notes	2007 RMB'000	2006 RMB'000
Sale of raw materials and components	(i)	**302**	10,472
Interest income, discounted bill charges inclusive	(xiv)	**501**	—
Interest paid for customer deposits	(xv)	**4**	43

43. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

During the year, ZHHRM and ZHAM carried out various transactions with Huatong. Particulars of these transactions are summarised as follows:

	Notes	2007 RMB'000	2006 RMB'000
Purchases of raw materials and components	(xvii)	**610**	167
Fees paid for the use of a trademark	(xviii)	**—**	300
Rentals paid in respect of:			
Land	(xvii)	**1,380**	920
Buildings	(xvii)	**—**	10
Fees income received from support services	(xvii)	**766**	735
Management fees paid	(xvii)	**200**	200

Notes:

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

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

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

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

43. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Notes: *(continued)*

(v) Pursuant to relevant agreements, the pricing in respect of routine research and development services is calculated at a rate of 0.2% (2006: 0.2%) of the Company's net annual turnover, and non-routine research and development service fees are determined separately under mutually agreed terms.

(vi) Pursuant to the relevant agreements, the annual rental for the use of land is approximately RMB7 million (2006: RMB5 million) subject to a further land rental adjustment announced by the relevant state land administration authorities.

(vii) Pursuant to relevant agreements, the pricing for the use of a trademark is charged at a rate ranging from 0.15% to 0.2 % (2006: 0.2%) of the Company's net annual turnover and 0.4% of YLDC's net annual turnover.

(viii) Pursuant to the relevant agreements, the rentals of buildings were charged with reference to the market rental, or, if there is no applicable market rental, annual depreciation expenses plus management fee (management fee should not be more than 5% of the net book value of the facilities). The lessee will also bear the related sales tax, currently at 5.5% (subject to the tax rate imposed by the government of the PRC from time to time), on the rental charge and management fee.

(ix) Pursuant to the relevant agreements, the rentals of plant and machinery were charged with reference to the market rental, or, if there is no applicable market rental, annual depreciation expenses plus management fee (management fee should not be more than 10% of the net book value of the facilities). The lessee will also bear the related sales tax, currently at 5.5% (subject to the tax rate imposed by the government of the PRC from time to time), on the rental charge and management fee.

(x) Pursuant to the relevant agreements, the rental income of buildings received is determined with reference to the market rental, or, if there is no applicable market rental, annual depreciation expenses plus management fee (management fee should not be more than 5% of the net book value of the relevant premises). The lessee will also bear the related sales tax, currently at 5.5% (subject to the tax rate imposed by the government of the PRC from time to time), on the rental charge and management fee.

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

(xii) The sale of plant and machinery were conducted on mutually agreed terms.

(xiii) The purchases of plant and machinery were conducted under mutually agreed terms.

43. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Notes: *(continued)*

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

(xv) 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.

(xvi) The service charge for a 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 Mainland China.

(xvii) These transactions were conducted according to the prices and conditions mutually agreed between the Group and its minority shareholder.

(xviii) Pursuant to the relevant agreement, the annual fee paid for the use of trademark was nil for the year ended 31 December 2007 (2006: RMB300,000).

(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 in FTGF for lending to YLCF. During the year, YLCF settled the balance due from it and hence such balance was nil at 31 December 2007.

As at 31 December 2007, Yituo International Commerce Company Limited, a subsidiary of the Holding, placed a designated deposit of RMB2 million (2006: 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 lending transactions by the depositors are not included in the Group's consolidated financial statements.

43. RELATED PARTY TRANSACTIONS *(continued)*

(b) Other transactions with related parties *(continued)*

(ii) Guarantees provided by the Group to related parties

As at 31 December 2006, FTGF provided guarantees to the extent of RMB100 million to certain financial institutions for securing loans granted to the Holding. Such guarantees were fully released during the year ended 31 December 2007.

(iii) Guarantees provided by related parties to the Group

At 31 December 2007, the Holding provided a guarantee to the extent of RMB260 million (2006: RMB124 million) to a bank for securing the banking facilities granted to the Company. As at 31 December 2007, the aforesaid banking facilities were utilised to the extent of RMB260 million (2006: RMB124 million).

(c) Outstanding balances with related parties:

(i) Details of the Group's amounts due from/to the Holding, and the Group's loan to and deposit from 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

	2007	2006
	RMB'000	*RMB'000*
Short term employee benefits	**1,235**	1,058
Post-employment benefits	**245**	239
Total compensation paid to key management personnel	**1,480**	1,297

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

44. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Group

Financial assets

	2007			
	Financial assets at fair value through profit or loss -held for trading	**Loans and receivables**	**Available-for-sale financial assets**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale investments	—	—	187,150	187,150
Trade and bills receivables	—	925,946	—	925,946
Financial assets included in prepayments, deposits and other receivables	—	200,098	—	200,098
Equity investments at fair value through profit or loss	47,365	—	—	47,365
Pledged deposits	—	151,640	—	151,640
Loans receivable	—	277,769	—	277,769
Bills discounted receivables	—	56,053	—	56,053
Cash and cash equivalents	—	1,147,084	—	1,147,084
	47,365	2,758,590	187,150	2,993,105

Financial liabilities

	2007
	Financial liabilities at amortised cost
	RMB'000
Trade and bills payables	**1,144,065**
Financial liabilities included in other payables and accruals	**456,299**
Interest-bearing bank borrowings	**673,900**
Customer deposits	**131,231**
	2,405,495

44. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: *(continued)*

Group

Financial assets

	2006			
	Financial assets at fair value through profit or loss -held for trading	**Loans and receivables**	**Available-for-sale financial assets**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale investments	—	—	251,399	251,399
Trade and bills receivables	—	744,774	—	744,774
Financial assets included in prepayments, deposits and other receivables	—	184,563	—	184,563
Equity investments at fair value through profit or loss	3,487	—	—	3,487
Pledged deposits	—	122,440	—	122,440
Loans receivable	—	321,519	—	321,519
Bills discounted receivables	—	219,561	—	219,561
Cash and cash equivalents	—	765,904	—	765,904
	3,487	2,358,761	251,399	2,613,647

Financial liabilities

	2006
	Financial liabilities at amortised cost
	RMB'000
Trade and bills payables	1,279,361
Financial liabilities included in other payables and accruals	360,928
Interest-bearing bank borrowings	561,558
Customer deposits	156,814
	2,358,661

44. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: *(continued)*

Company

Financial assets

	2007 Loans and receivables *RMB'000*	2007 Available-for-sale financial assets *RMB'000*	2007 Total *RMB'000*	2006 Loans and receivables *RMB'000*	2006 Available-for-sale financial assets *RMB'000*	2006 Total *RMB'000*
Available-for-sale investments	**—**	**129,101**	**129,101**	—	221,140	221,140
Trade and bills receivables	**561,748**	**—**	**561,748**	366,136	—	366,136
Financial assets included in prepayments, deposits and other receivables	**26,054**	**—**	**26,054**	43,370	—	43,370
Pledged deposits	**23,773**	**—**	**23,773**	10,165	—	10,165
Cash and cash equivalents	**397,723**	**—**	**397,723**	290,369	—	290,369
	1,009,298	**129,101**	**1,138,399**	710,040	221,140	931,180

Financial liabilities

	2007 Financial liabilities at amortised cost *RMB'000*	2006 Financial liabilities at amortised cost *RMB'000*
Trade and bills payables	**496,691**	554,608
Financial liabilities included in other payables and accruals	**141,446**	142,944
Interest-bearing bank borrowings	**474,000**	217,000
	1,112,137	914,552

45. 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 receivable, bills discounted receivable, 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, 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 arises 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, and there is no significant concentration of credit risk on the trade receivables.

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

Credit risk *(continued)*

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 the supervision over the implementation of the credit approving system and the post-credit inspection system.

The carrying amount of the Group's financial assets which comprise pledged deposits, cash and cash equivalents, available-for-sale investments, equity investments at fair value through profit or loss, amounts due from associates 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 the fair value of any collateral. The Company is also exposed to credit risk through the granting of financial guarantees in connection with bank loans and other banking facilities granted to its subsidiaries, the impact of such financial guarantee liabilities has been provided for in the Company's balance sheet during the current and prior years.

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 2007, the Group had short term deposits denominated in United States dollars and Hong Kong dollars of approximately RMB31,666,000 (2006: RMB45,971,000) and RMB31,816,000 (2006: RMB27,787,000), 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.

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

Foreign currency risk *(continued)*

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the Hong Kong dollar ("HK$") and United States dollar ("US$") exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Group	
	Increase/ (decrease) in HK$ and US$ rates	**Increase/ (decrease) in profit before tax**
	%	*RMB'000*
2007		
If Renminbi strengthens against HK$ and US$	(5)	(2,103)
If Renminbi weakens against HK$ and US$	5	2,103
2006		
If Renminbi strengthens against HK$ and US$	(5)	(2,348)
If Renminbi weakens against HK$ and US$	5	2,348

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

Interest rate risk

Interest rate risk means the risk on the fluctuation of fair value on future cash flow of financial instruments which arose from changes in interest rates. Floating interest rate instrument will result in the Group facing the risk of changes in market interest rate, while fixed interest rate instruments will result in the Group facing fair value 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.

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

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

	Group	
	Increase in basis points	**Decrease in profit before tax**
	%	*RMB'000*
2007	+1	1,870
2006	+1	—

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

Interest rate risk *(continued)*

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

	2007 Rate %	2006 Rate %
Assets		
Cash and cash equivalents	**0.99% - 1.89%**	0.99% - 1.89%
Loans receivable	**6.57% - 9.11%**	5.27% - 8.23%
Liabilities		
Customer deposits	**0.72% - 3.87%**	0.72% - 3.06%
Interest-bearing bank borrowings	**6.39% - 7.74%**	5.14% - 7.96%

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flow from operations.

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

Liquidity risk *(continued)*

The maturity profile of the Group's and the Company's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group

2007

	Within one year or on demand	In the second year	In the third to fifth years	Beyond five years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	474,248	82,364	156,438	—	713,050
Trade and bills payables	1,144,065	—	—	—	1,144,065
Other payables	456,299	—	—	—	456,299
Customer deposits	131,231	—	—	—	131,231
	2,205,843	82,364	156,438	—	2,444,645

2006

	Within one year or on demand	In the second year	In the third to fifth years	Beyond five years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	442,572	50,176	87,259	—	580,007
Trade and bills payables	1,279,361	—	—	—	1,279,361
Other payables	360,928	—	—	—	360,928
Customer deposits	156,814	—	—	—	156,814
	2,239,675	50,176	87,259	—	2,377,110

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

Liquidity risk *(continued)*

Company

2007

	Within one year or on demand	In the second year	In the third to fifth years	Beyond five years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	292,998	61,625	156,438	—	511,061
Trade and bills payables	496,691	—	—	—	496,691
Other payables	141,446	—	—	—	141,446
	931,135	61,625	156,438	—	1,149,198

2006

	Within one year or on demand	In the second year	In the third to fifth years	Beyond five years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	147,960	4,960	77,339	—	230,259
Trade and bills payables	554,608	—	—	—	554,608
Other payables	142,944	—	—	—	142,944
	845,512	4,960	77,339	—	927,811

46. CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years end 31 December 2007 and 2006.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing bank borrowings, trade, bills and other payables, accruals and customer deposits, less cash and cash equivalents and pledged deposits. Capital includes equity attributable to the equity holders of the parent. The gearing ratios as at the balance sheet dates were as follows:

	Group	
	2007	2006
	RMB'000	*RMB'000*
Interest-bearing bank borrowings	**673,900**	561,558
Trade and bills payables	**1,144,065**	1,279,361
Other payables and accruals *(note 29)*	**572,693**	471,590
Customer deposits	**131,231**	156,814
Less: Cash and cash equivalents and pledged deposits	**(1,298,724)**	(888,344)
Net debt	**1,223,165**	1,580,979
Equity attributable to equity holders of the parent	**2,575,045**	2,198,031
Capital and net debt	**3,798,210**	3,779,010
Gearing ratio	**32%**	42%

47. COMPARATIVE AMOUNTS

Provisions for early retirement benefits of approximately RMB24 million for the Group and the Company as at 31 December 2006 have been reclassified from other payables and accruals to conform with current year's presentation.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 April 2008.