FIRST TRACTOR COMPANY LIMITED

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

Stock Code 0038

2008 年度報告
Annual REPORT

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CORPORATE INFORMATION

REGISTERED NAME OF THE COMPANY
First Tractor Company Limited

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

WEBSITE OF THE COMPANY
http://www.first-tractor.com.cn

BUSINESS REGISTRATION NUMBER
410000400013049

LEGAL REPRESENTATIVE OF THE COMPANY
Liu Dagong

HEAD OF INVESTOR RELATIONS DEPARTMENT
Yu Lina

JOINT COMPANY SECRETARIES
Yu Lina
Liu Pui Yee

AUTHORISED REPRESENTATIVES OF THE COMPANY
Liu Wenying
Yu Lina

PRINCIPAL BANKERS OF THE COMPANY
Industrial and Commercial Bank of China
Luoyang City Commercial Bank
Bank of Communications, Luoyang Branch
Construction Bank of China

INTERNATIONAL AUDITORS
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LEGAL ADVISERS
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H SHARES LISTING
The Stock Exchange of Hong Kong Limited
Stock Code: 00038

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INVESTOR AND MEDIA RELATIONS
Wonderful Sky Financial Group Limited
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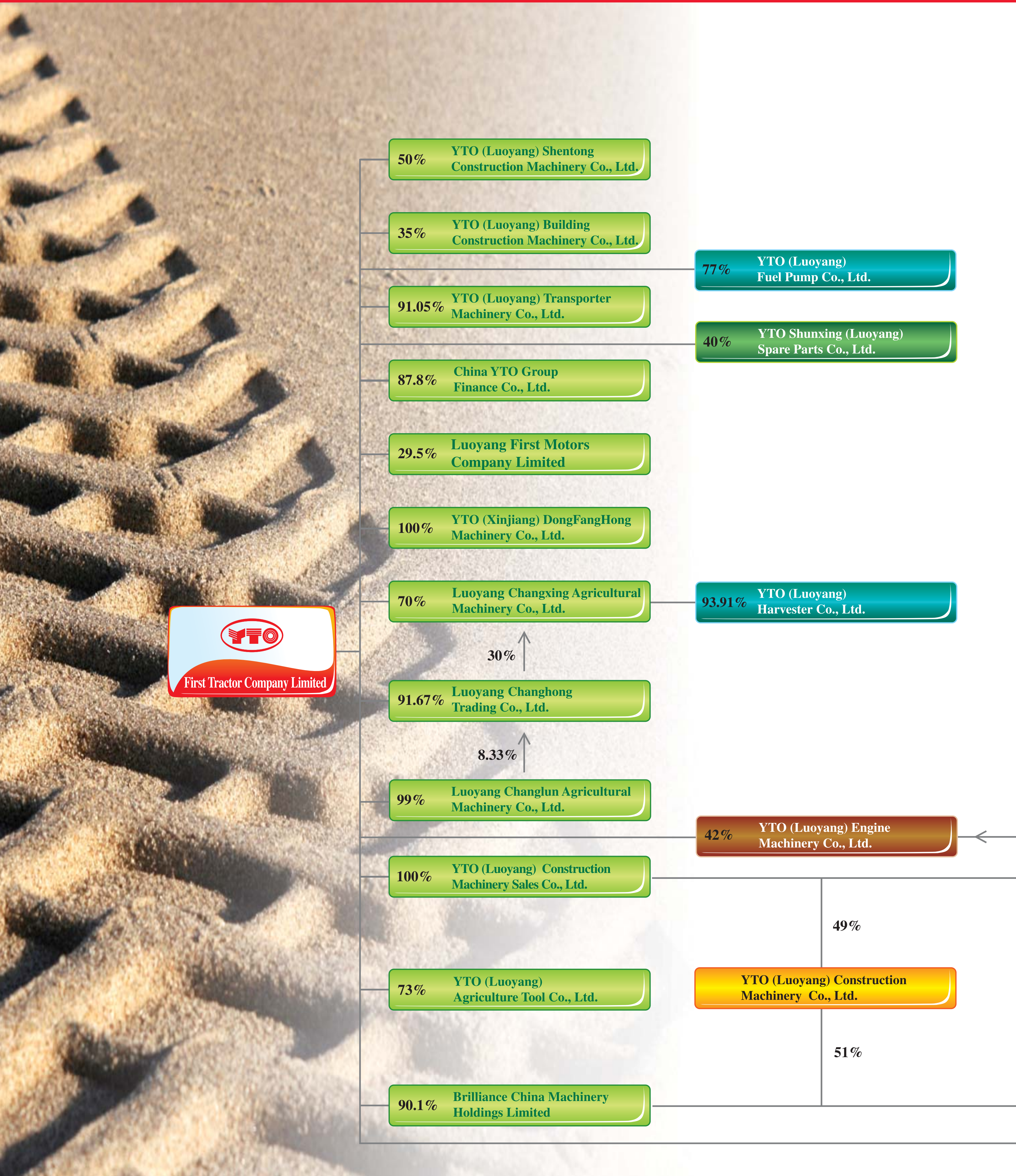
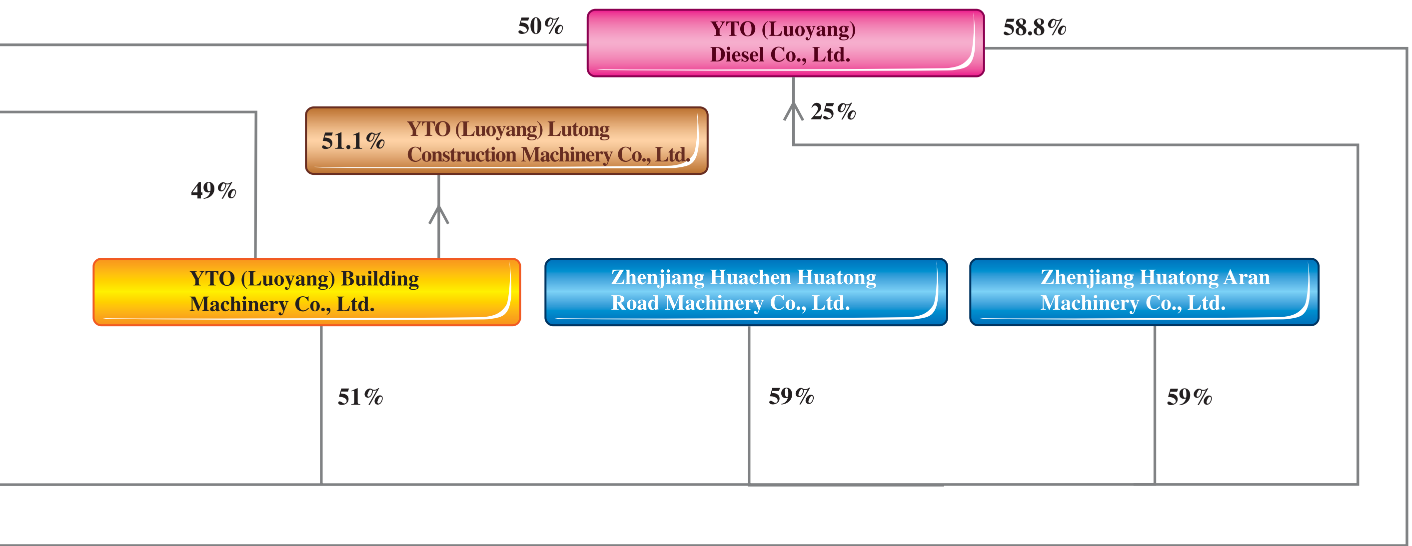
FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
REVENUE	**7,933,721**	7,102,150
Finance costs	**(37,643)**	(31,589)
Share of profits and losses of associates	**(82)**	(12,649)
PROFIT BEFORE TAX	**90,407**	237,804
Tax	**(9,528)**	(40,024)
PROFIT FOR THE YEAR	**80,879**	197,780
Attributable to:		
Equity holders of the parent	**68,505**	181,762
Minority interests	**12,374**	16,018
	80,879	197,780
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – Basic	RMB8.10 cents	RMB22.82 cents


First Tractor Company Limited
50% YTO (Luoyang) Shentong Construction Machinery Co., Ltd.
35% YTO (Luoyang) Building Construction Machinery Co., Ltd.
77% YTO (Luoyang) Fuel Pump Co., Ltd.
91.05% YTO (Luoyang) Transporter Machinery Co., Ltd.
40% YTO Shunxing (Luoyang) Spare Parts Co., Ltd.
87.8% China YTO Group Finance Co., Ltd.
29.5% Luoyang First Motors Company Limited
100% YTO (Xinjiang) DongFangHong Machinery Co., Ltd.
70% Luoyang Changxing Agricultural Machinery Co., Ltd.
93.91% YTO (Luoyang) Harvester Co., Ltd.
30%
91.67% Luoyang Changhong Trading Co., Ltd.
8.33%
99% Luoyang Changlun Agricultural Machinery Co., Ltd.
42% YTO (Luoyang) Engine Machinery Co., Ltd.
100% YTO (Luoyang) Construction Machinery Sales Co., Ltd.
49%
73% YTO (Luoyang) Agriculture Tool Co., Ltd.
YTO (Luoyang) Construction Machinery Co., Ltd.
51%
90.1% Brilliance China Machinery Holdings Limited

CORPORATE STRUCTURE



CHAIRMAN'S STATEMENTS

Liu Dagong,
Chairman

To shareholders,

On behalf of the board of directors (the "Directors") of First Tractor Company Limited (the "Company"), I would like to present the annual report of the Company and its subsidiaries (the "Group") to all shareholders for the year ended 31 December 2008 (the "Reporting Period") for your review.

BUSINESS REVIEW

In year 2008, there were drastic changes in economic environment and more challenges in business development. We were confronted with national macro-control, appreciation in Renminbi and hiking prices in raw materials in the first half of the year as well as tough external situations such as international financial crisis in the second half. Amid the volatile environment, the Group took initiatives to carry out structural adjustments focusing on technology upgrade of major products. Meanwhile, it continued to improve the capability in integrating and optimizing resource allocation, strengthened and ameliorated operation and management, enhanced the risk prevention system construction, and controlled investment and capital risks, thus maintaining the steady and sustainable growth of the Group.

Product mix adjustment was pressed ahead and core capabilities were consolidated and improved through technical renovation and management innovation. During the Reporting Period, positive progress was made in the product improvement, key research and development and technical renovation projects. The technical renovation of large and medium-sized wheeled tractors passed completion acceptance. The production and sales volume of large and medium-sized wheeled tractors exceeded the design conspectus in that year. Projects including high pressure forged steel crankshaft production lines were completed and put into production, providing guarantees for the products research and development, structure adjustment, quality upgrade and market competitiveness improvement. The Group promoted equity restructuring and resource integration for the internal harvester business and construction machinery business, creating favourable conditions for concentration of resources, enhancement of management, and improvement of the Group's operation efficiency.

International marketing strategy was improved, market structure adjustment was speeded up. During the Reporting Period, the Group further improved its international marketing strategy. It established an international marketing service network covering over 100 outlets in six continents by establishing bonded warehouses, spare parts warehouses and SKD assemblies. YTO brand popularity was further boosted by establishing YTO brand stores and attending international exhibitions. The Group optimized the structure of export products by continuously promoting the product certification work in line with the requirements of the target markets and expediting product exports to developed countries. As a result, it exported 3,415 units of large wheeled tractors with higher added value, representing an increase of 66.3% over last year.

CHAIRMAN'S STATEMENTS *(continued)*

By promoting product research and development and quality improvement, continual independent innovation ability was enhanced. During the Reporting Period, the Group put more efforts in new product development and product improvement to continuously boost the product level by formulating and implementing the annual new product research and development plan as well as product adaptation amelioration plan. It completed the prototype trial production of electronic control fuel injection system for diesel engines and control technology; stellar progress was made for tractor power shifting system and control technology (TCU); the research and development for control technology of complete machine of tractors was started, laying a certain foundation for technology upgrade of major products. In 2008, the Company and its subsidiary, Yituo (Luoyang) Diesel Company Limited, were jointly accredited as hi-tech enterprises by Henan Department of Science & Technology, Henan Department of Finance, State Administration of Taxation and the local taxation administration, obtaining supports in taxation policies from the State.

Internal control and risk management was strengthened to effectively control cost and prevent against capital risks. Major raw materials prices and costs kept rising in the first half of 2008 while financial crisis swept over the globe and led to sudden changes in market supply and demand in the second half of 2008. Amid this operation situation, the Group partly abated impacts on its profits from significant fluctuations of raw material prices and external environment changes by a series of measures including implementing strategic reserves, improving purchase management, strengthening cost accounting, enhancing internal budgeting control against capital risks according to the market trend.

During the Reporting Period, the Group recorded revenue of RMB7,933.72 million, representing a year-on-year increase of 11.7%. Profit attributable to equity holders of the Parent was RMB68.51 million. Excluding investment income such as gain from disposal of shares in the Bank of Communications in 2007, it represented a decrease of 38.8% from the same period last year. Earnings per share was RMB8.1 cents.

During the Reporting Period, the Group proactively participated in social public welfare activities and assumed social responsibility. After the Wenchuan Earthquake, the Group organised production of necessary earthquake-relief products and rapidly dispatched "YTO Disaster Relief Volunteer Team" to the earthquake-stricken areas and execute rescue and relief work twice, building an admirable corporate image.

BUSINESS PROSPECTS

Looking into 2009, PRC's economy is facing unprecedented difficulties and challenges. The bleak macro environment will bring both challenges and opportunities to the Group's development. On the one hand, as uncertainties in macro-economic development are mounting amid the international financial crisis, in a certain period in the future, enterprises' development will be challenged by operating pressures from shrinking exports, weakening domestic demand, hiking cost and difficult financing, etc. On the other hand, the inherent conditions that support PRC's economy to maintain rapid and steady long-term development remain unchanged. To cope with impacts from financial crisis and prevent economic upheaval, PRC is adopting proactive fiscal policies and moderate loose monetary policy, and considering expansion of domestic demand as its main driver for economic growth. The State Council launched a series of major initiatives to boost domestic demand and accelerate economic growth, which would effectively facilitate the sustainable development of the enterprises.

In 2009, the State continues to expand investment in "agriculture, countryside, farmers", infrastructure construction and reconstruction after disaster, which will stimulate the domestic demand for agricultural machinery and construction machinery. Meanwhile, affected by the financial crisis, demand for high end products shrank in international market, which would offer opportunities for exports of engineering machinery with better quality and competitive price. The Group is to grasp industry development trend amid changes in international and domestic market and proactively push forward structure adjustment and technological upgrades, so as to seize new development opportunities.

Technology innovation has always been the focus and motivation for the Group to push ahead structure adjustment. In 2009, the Group will expand technology cooperation with foreign countries and integrate resources for research and development to continually enhance independent innovation ability. Firstly, the Group will focus on key technology of core business, steering development of product technology. Fully considering effective linkage between market orientation, competition orientation and technology orientation, the Group will ensure the coexistence of three generation technologies for the purpose of production, research and development and reserve. Secondly, capitalizing on advanced research and development concept and mode, the Group is to carry out external technology cooperation in various ways. Adhering to "cooperative development with the Group in dominant position" mode, the Group will gradually establish a research and development system with its own characteristics. Thirdly, the Group will make innovation in investment system for research and development to enhance the investment and strive for better results. The Group will focus on upgrades of its core business and key technology to ensure the concentration and enhancement of investment in research and development and technology innovation.

As a renowned enterprise in equipment manufacture and an important backbone company in agricultural machinery industry, the Group will explore the market demand triggered by the State's initiatives to boost domestic demand and accelerate economic development amid the changing market environment, aiming at new market opportunities and development potentials. The Group will continue to focus on construction of its core capacity, innovate development mode, speed up structure adjustment, technology upgrades and enterprise transformation, and continuously improve managements, thus maintaining a synchronized growth in scale and profitability. The Group will further enhance the corporate governance and risk prevention ability, and press ahead with restructuring of business and assets so as to improve economic benefits.

As for agricultural machinery business, the Group will further dedicate to provide complete equipment solution for new countryside construction, while increasing investment in technology research and development of large and medium tractors, to occupy leading position in technology and market. The Group aims to make breakthrough in sales of harvesters through upgrading products quality. Through seeking technology cooperation in agricultural machinery, the Group will speed up the pace of business development. Leveraging on its brand advantages, the Group will push forward "localization in regional market", putting itself into the development of the regional economy. Riding on the preferential policies of local governments, it will establish strategic industry bases through cooperation with other parties in key regions which have huge market potentials, strong radiation effect to surrounding areas and obvious position advantage. Accordingly, a platform for development of relevant businesses will be provided while developing its core business.

As for construction machinery business, the Group will seize the opportunities arising from central and local government's increased investment in areas such as agriculture hydraulic project construction and urban infrastructure, focus on construction of its core ability, press ahead product technology upgrades as well as development and promotion of high added-value products. In the meantime, the Group will put more efforts in researching and resolving key areas such as development strategy, resources relocation, profits mode of construction machinery business. Adhering to the principal of "choose to do something worth doing", the Group is to effectively improve operating results through measures such as resources integration, business reorganization and enhancement of internal management.

As for engine machinery business, the Group will advance the research and development of heavy duty diesel engines. While consolidating the position in ancillary agricultural machinery market, the Group will strive to make a breakthrough in ancillary construction machinery market, maintain its leading position in engine machinery (other than road machinery) market in the PRC and accelerate research and development and production preparation of electronic control diesel engines for motor vehicles.

As for financial business, the Group will concentrate financial resources and provide personalized financial service solutions with emphasis on promotion of major products of the Group. Meanwhile, various financials instruments will be studied and utilized to provide capital support for the development of the Group's major businesses. Further, the Group will optimize its financial structure to lower financial risk.

As for international business, the Group will further analyse the purchasing desire, purchasing ability and changes in supply and demand in different countries and regions which suffered from the financial crisis, proactively improve marketing strategy, push forward construction of overseas assembly plant project while constantly improving service and support for the overseas assembly plants. The Group will facilitate the development in African market. In the meantime, the Group will construct bonded warehouse and spare parts warehouse to improve international market service network and provide basic support for expansion of international trade.

The Group will further adhere to the scientific development perspective, enhance corporate governance, address various challenges by virtue of its advantages, and continue to operate its business in a prudent and steady manner. Thereby, it will continuously enhance its corporate value and facilitate the health development of the Company, so as to reward the shareholders, the employees 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.

Liu Dagong
Chairman

Luoyang, the PRC
20 April 2009

MANAGEMENT DISCUSSION AND ANALYSIS

In 2008, the Group took initiatives to address the changing domestic and overseas economic environment under the background of the raw material price upheaval in the first half of 2008, the global financial crisis in the second half of 2008 and plunging demand in the market. The Group enhanced control on its internal budget, expedited technology innovation, marketing integration and optimization of supply chain management to achieve higher standard of internal control and improve operational efficiency and risk resistance. As a result, the raw material price upheaval was effectively slowed down and effect of the financial crisis received by the Group's profit was minimized.

During the Reporting Period, the Group recorded revenue of RMB7,933.72 million, representing an increase of 11.7% over the same period last year. Profit attributable to equity holders of the Parent was RMB68.51 million, excluding gain from disposal of shares in the Bank of Communications in 2007 and securities investment, representing a decrease of 38.8% over the same period last year. Consolidated gross profit margin was 10.4%, representing a decrease of 1.5 percentage points. Net return on assets was 2.9%, which decreased by 4.3 percentage points. Despite the slightly decreased business results, overall performance maintained a steady and sustainable development momentum.

ANALYSIS OF OPERATING RESULTS

	Revenue			Segment results *(Note 2)*		
			% of change			% of change
By segment	**2008**	2007	**over last year**	**2008**	2007	**over last year**
		(Note 1)				
	RMB'000	*RMB'000*		***RMB'000***	*RMB'000*	
Agricultural machinery business	**5,572,154**	4,869,263	14.4	**83,219**	113,110	(26.4)
Construction machinery business	**1,542,220**	1,519,311	1.5	**(83,177)**	(69,650)	(19.4)
Engine machinery business	**777,209**	684,796	13.5	**91,854**	89,300	2.9
Financial business	**42,138**	28,780	46.4	**40,133**	26,802	49.7
Others	**—**	—	—	**(103)**	(139)	25.9
Total	**7,933,721**	7,102,150	11.7	**131,926**	159,423	(17.2)

Note 1: Prior period adjustments on operating revenue have been made in 2007, details of which are set out in Note 5 to the Financial Statements of this annual report

Note 2: Details of segment results are set out in Note 4 to the Financial Statement of this annual report

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

During the Reporting Period, the increase in revenue was mainly derived from agricultural machinery business. Revenue from agricultural machinery business increased by 14.4% over the corresponding period last year, accounting for 70.2% in the operating revenue and represented a year-on-year growth of 1.6 percentage points. Revenue from construction machinery business increased by 1.5% over the corresponding period last year, accounting for 19.4% in the operating revenue and represented a year-on-year decrease of 2 percentage points. Revenue from engine machinery business increased by 13.5% over the corresponding period last year, accounting for 9.8% in the operating revenue and represented a year-on-year growth of 0.2 percentage points.

Agricultural machinery business

In year 2008, there was a mixed scenario in China's agricultural machinery market as affected by the international economy and State policies. On one hand, the overall agricultural machinery market was in good shape, thanks to the State's supporting and preferential agricultural policies including greater purchase subsidy for agricultural machinery. On the other hand, the industry suffered a slump in profit margin due to price hikes of raw materials and power, increased labour cost and control on selling price of products involving agricultural machinery subsidized by the State. According to the information provided by the Industry Statistics Association of China, 217,382 units of large and medium tractors were sold in China during 2008, representing a growth of 2.9% from last year, while the sales volume of small tractors decreased by 20.8% year-on-year.

During the Reporting Period, the Group embarked to quicken the structural adjustment to its products by technological renovation, fostered product upgrades with reference to market demand whilst facilitating marketing management by integrating its capabilities. In 2008, the Company completed the major improvement project covering 19 types of large wheeled tractors in 4 horsepower ranges and 14 types of medium wheeled tractors in 3 series. Market competitiveness enhancement plan was implemented to improve synergy and development capability of the Company's resources as a whole. During the Reporting Period, the Group sold 46,330 units of large and medium tractors, representing a year-on-year increase of 4.7%. Among the above, sales of large wheeled tractors amounted to 24,994 units, representing a year-on-year growth of 8.4% which was 3.3 percentage points higher than the average growth of the industry. The increase was mainly derived from tractors of 90 horsepower or above, with sales volume increasing by 5,916 units or 127.1%. Sales of crawler tractors amounted to 1,974 units, representing a year-on-year decrease of 32.4%. Sales of medium wheeled tractors amounted to 19,362 units, representing a year-on-year growth of 6.0% which was 1.5 percentage points higher than the average growth of the industry. 65,180 units of small wheeled tractors were sold, representing a year-on-year decrease of 31.4%, which was higher than the average decrease of the industry, while 1,515 units of harvesters were sold, representing a year-on-year growth of 31.9%. However, the growth was lower than the average growth of the industry.

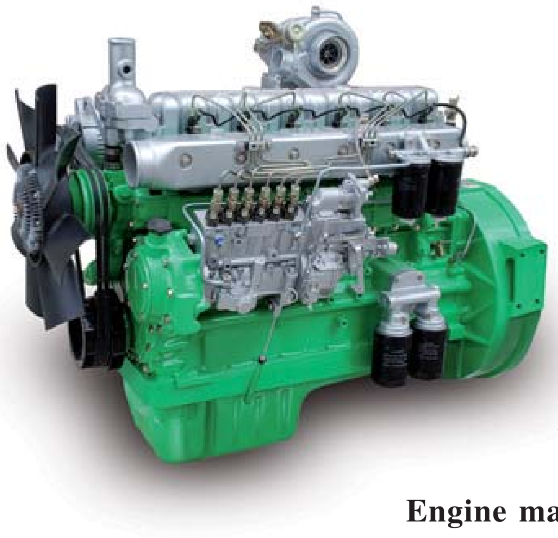
During the Reporting Period, agricultural machinery business recorded revenue of RMB5,572.15 million, representing a year-on-year growth of 14.4%, of which export amounted to RMB445.20 million (equivalent to USD66.45 million), representing a year-on-year increase of 60.6%, accounting for 8% of revenue from the agricultural machinery business. Operating results amounted to RMB83.22 million, representing a year-on-year decrease of RMB29.89 million. Owing to hiking prices of raw materials and power, a decrease of RMB83.582 million in gross profit was seen. Gross profit margin of tractor products decreased by 1.5 percentage points over the corresponding period last year.

Construction machinery business

The growth of China construction machinery slowed down as afflicted by global financial crisis.

During the Reporting Period, to cope with external changes, the Group continued to press ahead with the adjustment to its product mix and market structure by introducing products that were invented in 2008 to the market, such as the large-tonne fully hydraulic road rollers and mine train not used for roads. The Group also spared no effort in improving product quality and adaptability. The Company also improved adaptability of products such as loaders, graders and trash compactors. During the Reporting Period, the Group sold 2,604 units of road rollers and 1,000 units of large loaders, representing a year-on-year increase of 8.2% and 51.8% respectively. Owing to fiercer industry competition, the sales volume of small construction machinery (small excavators and small loaders) and bulldozers decreased year-on-year by 38.1% and 11.7% respectively.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*



During the Reporting Period, construction machinery business recorded revenue of RMB1,542.22 million, representing a year-on-year growth of 1.5%, of which export amounted to RMB396.37 million (equivalent to US$59.16 million), representing a year-on-year increase of 36% and accounting for 25.7% of revenue from the segment. Due to price hikes of raw materials and power, consolidated gross profit margin of the construction machinery business decreased by 1.6 percentage points from the same period last year. The operating loss increased by RMB13.53 million year-on-year.

Engine machinery business

During the Reporting Period, benefiting from incentive government policies including higher purchase subsidy for agricultural machinery, the sales volume of engine machinery increased. The Group boosted capability of technological innovation and accelerated product mix adjustment by reaching out for cooperation during the Reporting Period. It completed production process preparation for double shaft balanced diesel engines. 80-90 horsepower electronic control diesel engines passed platform reliability test and obtained Europe IIIA and EPAIII emission certifications, and became qualified for entering into international high-end market of agricultural ancillary machinery. During the Reporting Period, the Group sold 91,281 diesel engines, representing a year-on-year increase of 11.2%, of which 59,452 units were exported, representing a year-on-year increase of 15.5%. Exports recorded revenue of RMB777.21 million, representing a year-on-year increase of 13.5% while the operating results recorded RMB91.85 million, representing a year-on-year increase of 2.9%. As engine machinery is a kind of auxiliary products and in face of soaring prices of raw materials, pressure from cost hikes could not be passed on to customers. Consequently, gross profit margin of engine machinery decreased year-on-year by 2.7 percentage points.

Financial business

During the Reporting Period, the Group's financial business recorded operating results of RMB40.13 million, an increase of RMB13.33 million over the same period last year. In the context of volatile internal and external economic environments, the Group effectively averted capital risk by reinforcing internal risk control, sound operation of settlement and loan businesses, promotion of production and operation of the Group, improvement of its system of online banking settlement and more effective financial services. It also strengthened its financing lease business of its products to boost the sales of the Group's products.

To cope with volatility in the capital market in 2008, China First Tractor Group Finance Company Limited restrained its securities investment business in the first half of 2008 to hedge investment risk. During the Reporting Period, gain from securities investment was modest.

Period Expenses

During the Reporting Period, the Group strengthened budget control, with period expenses amounting to RMB774.77 million, representing a year-on-year increase of 1.4%, under an increase in revenue of 11.7%.

In particular, selling costs amounted to RMB272.19 million, which held the line of the same period last year.

Administrative expenses amounted to RMB402.62 million, representing a year-on-year increase of 1.7%, mainly due to an increase of RMB16,996,000 in cost of research and development. However, other controllable expenses decreased due to budget control.

Other operating expenses amounted to RMB62.32 million, representing a year-on-year decrease of 2.4%, mainly due to decrease in exchange losses, impairment loss from loans and loss from disposal of fixed assets.

Finance costs amounted to RMB37.64 million, representing a year-on-year increase of 19.2%, mainly attributable to 1) the increase in the average interest rate of loans, 2) the transfer of long term loan interests to expense from capitalisation upon completion of project of technical renovation of large wheeled tractors.

Income Tax

During the Reporting Period, the Company and YTO (Luoyang) Diesel Co., Ltd., its subsidiary, were accredited as a high technology enterprise and enjoyed a preferential income tax rate of 15% for three years commencing from 2008 to 2010. In 2008, the income tax of the Group amounted to RMB9.52 million, representing a year-on-year decrease of RMB30.50 million. Such decrease was mainly due to the decrease in tax rate given a decrease in taxable income.

ANALYSIS ON ASSETS

ANALYSIS ON CHANGES IN CURRENT LIABILITIES

	31 December 2008 *RMB'000*	31 December 2007 *RMB'000*	**Difference** *RMB'000*
Cash and bank balances	**758,535**	1,147,084	(388,549)
Pledged deposits	**366,357**	151,640	214,717
Trade and bills receivable	**813,872**	925,946	(112,074)
Inventories	**842,003**	841,800	203
Assets held for sales*	**317,012**	—	317,012

* Assets held for sales: the Company approved the disposal of its 59% of equity interests in Zhenjiang Huatong Aran Machinery Co., Ltd. ("ZHAM") and Zhenjiang Huachen Huatong Road Machinery Co., Ltd. ("ZHHRM") each on 9 December 2008. Brilliance China Machinery Holding Limited ("BCM") entered into an equity transfer agreement with a purchaser on 26 March 2009. Assets of ZHAM and ZHHRM were included in "Assets held for sales" on 31 December 2008.

Cash and bank balances

As at 31 December 2008, the Group's current cash and cash equivalents amounted to RMB758.535 million, having decreased by RMB388.549 million from the same period last year, of which the Company owned as to RMB265.91 million and the remaining was owned by the subsidiaries. Decrease in cash was primarily due to repayment of bank loans matured of RMB290.00 million.

Pledged deposits

As at 31 December 2008, the Group's pledged deposits amounted to RMB366.357 million, having increased by RMB214.717 million year-on-year, which mainly arose from the guarantee deposit to the bank for the purpose of acquiring bank acceptance bills.

Trade and bills receivable

As at 31 December 2008, trade and bills receivable was RMB813.872 million. Having considered effects of the transfer to "assets held-for-sales", trade receivable and bills receivable actually decreased by RMB13.04 million over the same period last year, among which trade receivable increased by RMB43.55 million over the same period last year, mainly due to the deferred payment of subsidy for purchasing agricultural machinery. As at the date of this report, the subsidy has been received. Bills receivable amounted to RMB323.53 million, representing a decrease of RMB56.59 million over the same period last year. Most of the bills receivable held by the Company were bank acceptance bills.

During the Reporting Period, turnover days of trade receivable were 35 days, which was 3 days earlier than last year.

Inventories

As at 31 December 2008, inventories amounted to RMB842.003 million; having considered the factor of the transfer to "assets held-for-sales", inventories actually increased by RMB75.13 million over the same period last year. Measures to expand inventories reserves were adopted at the end of 2008 mainly in response to the increase in subsidy for purchasing agricultural machinery and the earlier peak season for sales of agricultural machinery in 2009.

During the Reporting Period, the Group's inventory turnover days were 54 days, which was 3 days faster than last year.

ANALYSIS ON LIABILITIES

	31 December 2008 *RMB'000*	31 December 2007 *RMB'000*	**Difference** *RMB'000*
Short-term borrowings	**167,000**	459,900	(292,900)
Trade and bills payables	**1,448,998**	1,144,065	304,933
Long-term borrowings	**144,000**	214,000	(70,000)
Liabilities held-for-sales*	**206,263**	—	206,263

* Liabilities held-for-sales: Liabilities of ZHAM and ZHHRM were included in "Liabilities held-for-sales" on 31 December 2008.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Short-term loans

As at 31 December 2008, the Group's short-term loans of RMB167.00 million decreased by RMB292.90 million from the same period last year. The decrease was principally attributable to repayment of borrowings with higher interest rates made in prior years. Details of effective interest rate and terms of repayment of the short-term loans are set out in note 32 to the financial statement of this annual report.

Trade and bills payables

As at 31 December 2008, the Group's trade and bills payables was RMB1,449.00 million. Having considered effects of the transfer to "liabilities held-for-sales", actual trade payable and bills payable increased by RMB393.33 million over the same period last year, among which bills payable increased by RMB238.92 million year-on-year, mainly attributable to extended application of bank acceptance bills for savings in financial cost and enhancement of capital utilization efficiency. Trade payable increased by RMB154.41 million which was mainly due to the deferred payment of subsidy for purchasing agricultural machinery. The Group negotiated with suppliers to extend payment term accordingly.

Long-term borrowings

As at 31 December 2008, the Group's long-term borrowings of RMB144.00 million decreased by RMB70.00 million from the same period last year, mainly resulting from the reclassification of certain borrowings of less than one-year term as short-term borrowings. Details of effective interest rate and terms of repayment of the long-term borrowings are set out in note 32 to the financial statement of this annual report.

Indicators of Financial Ratio:

Items	**Basis of calculation**	**31 December 2008**	31 December 2007
Gearing ratio	Total liabilities/total assets x 100%	**50.46%**	49.84%
Current ratio	Current assets/current liabilities	**1.54**	1.61
Quick ratio	(Current assets - inventories)/current liabilities	**1.20**	1.25
Debt equity ratio	Total liabilities/shareholders' equity* x 100%	**108.89%**	106.22%

* Shareholders' equity (excluding minority interest)

As of 31 December 2008, the gearing ratio of the Group was 50.46%, representing an increase of 0.6 percentage points over the same period last year. The solvency maintained at a sound level.

Analysis of Equity and Reserves

Items	**31 December 2008** *RMB'000*	31 December 2007 *RMB'000*	**Increase/ (decrease)** *RMB'000*
Share capital	845,900	845,900	—
Capital surplus	1,539,938	1,539,938	—
Statutory surplus reserve	113,519	99,695	13,824
Statutory public welfare fund	—	—	—
Reserve fund	3,590	3,373	217
Enterprise expansion fund	2,573	2,356	217
General and statutory reserve	5,145	4,841	304
General reserve	64,744	64,744	—
Available-for-sale investment revaluation reserve	24,546	74,932	(50,386)
Exchange fluctuation reserve	(11,673)	(8,772)	(2,901)
Retained profit/(Accumulated losses)	(65,691)	(77,339)	11,648
Proposed final dividend	42,295	25,377	16,918

Available-for-sale investment revaluation reserve decreased by RMB50.386 million which was mainly attributable to decrease in fair value of available-for-sale financial assets as a result of the plunge in stock prices of Bank of Communications and Daye Special Steel.

Interests in Associates

During the Reporting Period, the Group shared a loss of RMB560,000 in operating losses of Luoyang First Motors Company Limited, an associate of the Group. YTO Shunxing (Luoyang) Spare Parts Co., Ltd. contributed profit of RMB480,000 to the Group.

Significant Investment or Acquisition of Capital Assets of the Group in the Future

In 2009, the Group intends to invest RMB478.22 million, which will be mainly put into energy saving and emission reduction projects of heavy power duty diesel engines and forging equipments, and technological renovation projects of crawler tractors, large wheeled tractors and other products. The said investments will be mainly financed by bank loans and existing capital of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

EXCHANGE RATE RISK

During the Reporting Period, Group carried out its business activities mainly in the PRC, and its income and expenditure from international businesses were principally denominated in Renminbi. Accordingly, changes in exchange rates of currencies have not materially impacted the production and operation. The Group's foreign exchange debt was mainly applied to the payment of commissions outside the PRC and dividends to holders of H Shares. The Group's cash balances were usually deposited with financial institutions in the form of short-term deposits. Bank loans were borrowed in Renminbi and such loans were repaid out of the revenue received in Renminbi.

As at 31 December 2008, there was no pledge of any deposit of foreign currency of the Group.

PLEDGE OF ASSETS

As at 31 December 2008, certain of the Group's buildings and machinery with an aggregate net carrying value of approximately RMB62,308,000 (year 2007: RMB62,321,000) were pledged to secure certain bank loans granted to the Group.

As at 31 December 2008, certain of the Group's prepaid land premiums with an aggregate net carrying value of approximately RMB8,404,000 (year 2007: RMB8,095,000) were pledged to secure bank loans granted to the Group.

As at 31 December 2008, the Group's deposits of approximately RMB366,357,000 (year 2007: RMB147,168,000) were pledged to secure the Group's bills payable of approximately RMB411,070,000 (year 2007: RMB231,117,000).

CONTINGENT LIABILITIES

As at 31 December 2008, 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. As at 26 March 2009, BCM signed a contract to transfer the Group's 59% equity interest in ZHHRM. Upon completion of the equity transfer, relevant contingent liabilities were also no longer included by the Group.

Details of the contingent liabilities as at 31 December 2008 are set out in note 40 to the financial statement of this annual report.

NUMBER OF STAFF, REMUNERATION POLICY AND TRAINING FOR STAFF

As at 31 December 2008, the Group had a total of 15,009 staff members, of whom 8,040 were production staff, 912 were engineering technicians, 275 were financial staff, 1,133 were management staff, 1,259 were sales staff, 166 were service staff and 3,224 were other staff.

During the Reporting Period, the Group continued to implement a basic salary system based on "the remuneration in accordance with position". It established remuneration systems in line with the work nature of employees in different areas, including annual salary system, post-performance-based salary system, piece-rate-based salary system, time-based salary system, project-commission-based salary system and contractual salary system. 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.

Focusing on developing core abilities of the enterprise, the Group provided multi-tier training in a planned and systematic way, which enabled calibre of staff at various levels and functions to match the posts' requirements in line with the Company's growth. During the Reporting Period, altogether 28,452 individual training were provided to staff members through a total of 870 various training courses.

PROFILES OF DIRECTORS, SUPERVISORS, JOINT COMPANY SECRETARIES, AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Liu Dagong, aged 54, joined China First Tractor Group (Note: YTO Group Corporation Limited (formerly known as First Tractor Construction Machinery Company) ("YTO Group") 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 First Tractor Company Limited (the ''Company'') and the deputy governor of China Machinery Enterprise Management Association. 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 45, 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 59, 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 a long time with extensive experience in corporate financial operations and organisation management. Mr. Liu graduated from the postgraduate program in economic management at Henan Administrative College and the postgraduate program in management science and engineering at Dalian Polytechnic University. Mr. Liu holds the title of Senior Accountant.

Mr. Yan Linjiao, aged 53, joined China First Tractor Group in 1982. He had been the deputy workshop director, technical section chief, assistant chief engineer and deputy general manger of YTO (Luoyang) Diesel Engine 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 a director and the general manager 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.

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

Mr. Li Tengjiao, aged 52, was previously the deputy head of product development department of Luoyang Tractor Research Institute under the Ministry of Machinery Industry of China. He joined China First Tractor Group in 1995 where he held the positions of deputy director as well as director of Technology Centre, assistant chief engineer, head of Planning and Development Department and deputy general manager. He joined the Company in 2000 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 Tractor Engineering in 1982. Mr. Li holds the title of Senior Engineer.

Mr. Shao Haichen, aged 53, joined China First Tractor Group in 1977. He had been the 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. Li Youji, aged 45, joined China First Tractor Group in 1983. Mr. Li once served as a designer in Technical Centre and deputy workshop director in a subassembly plant of China First Tractor Group, as well as assistant to general manger, deputy general manager and general manager YTO International Company 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 The City University Business School (London, United Kingdom).

Ms. Dong Jianhong, aged 42, joined China First Tractor Group in 1989 and has been the deputy section chief, section chief as well as the deputy department head, the head of the financial department and the chief accountant of the Company. She joined the Company since 1997 and is currently a director and 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 degree of science from Zhengzhou University and a master degree of engineering from Xi'an University of Technology. She holds the title of senior economist.

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

Mr. Liu Shuangcheng, aged 52, 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, general manager of YTO (Luoyang) Construction Machinery Company Limited and the head of Financial Operations Department of the Company. 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 45, 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 and the general manager of YTO (Luoyang) Building Machinery Company Limited. He joined the Company in 2004 and is currently the director and the deputy general manager of Construction Machinery Division 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 76, is an independent non-executive director and a member of the Audit Committee of the Company. He was the chairman of the board of directors of China First Tractor Group from 1992 to 1995. He was also chairman of China Association of Agricultural Machinery Manufacturers, a technical consultant of the Asia-Pacific Regional Network of Agricultural Machinery to the United Nations, a part-time professor at Jilin University and Jiangsu University. Mr. Lu graduated from Harrkov Institute of Technology with a bachelor's degree in 1959. He holds the title of Senior Engineer.

Mr. Chan Sau Shan, Gary, aged 55, is an independent non-executive director and a member of the Audit Committee of the Company. Mr. Chan joined China Development Finance Company (Hong Kong) Limited in 1992, a wholly-owned subsidiary of Bank of China and acted as the head of Investment Banking Department and the managing director of BOCI Asia Ltd. In 2003, he served as a director of CCB International Holdings Ltd., a wholly-owned investment bank of Construction Bank of China and the managing director of CCB International Capital Limited and CCB International Securities Ltd.. 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 29 years of working experience in investment banking. Mr. Chan was a member of the Listing Committee for the GEM Board of the Stock Exchange of Hong Kong Limited from 1999 to 2003. Mr. Chan graduated from the University of Windsor, Canada with a master's degree in Business Administration 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 53, an independent non-executive director and a member of the Audit Committee 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 64, 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 55, 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 Committee Office, officer to the General Office and assistant to General Manager of China First Tractor Group. 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, legal matters and internal audit. He holds a title of Senior Political Engineer with professorship.

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

Mr. Kong Lingfu, aged 58, 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. Xu Weilin, aged 46, 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 a supervisor and head of the Investment Management Department 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. Shao Jianxin, aged 55, joined China First Tractor Group in 1973. He had been the deputy supervisor, 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 an employee supervisor and manager of medium and small wheeled tractors branch 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.

Mr. Zhao Shengyao, aged 54, joined China First Tractor Group in 1975. He has been the deputy general manager of YTO (Luoyang) Construction Machinery Co., Ltd., and deputy general manager and secretary to the Party Committee of YTO (Luoyang) Fuel Pump Company Limited 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.

JOINT COMPANY SECRETARIES

Ms. Yu Lina, aged 38, 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, and was awarded bachelor's and master's degrees. Ms. Yu holds the qualification of lawyer in the PRC and corporate legal advisers and a title of economist.

Ms. Liu Pui Yee, aged 31, joined the Company in October 2008 as joint company secretary. Ms. Liu is a Hong Kong qualified solicitor. She obtained a bachelor degree in laws and Postgraduate Certificates in Laws from the University of Hong Kong. Ms. Liu also obtained a second degree in Chinese laws from the Tsinghua University. Ms. Liu has accumulated extensive experiences from handling of compliance issues of listed companies and corporate merger and acquisitions transactions.

GENERAL MANAGER

Mr. Yan Linjiao is general manager of the Company. For his details, please refer to page 23 of this report.

DEPUTY GENERAL MANAGERS

Ms. Ren Huijuan, aged 50, joined China First Tractor Group in 1982, where she had been the committee member, section chief, deputy division head and division head of the organization office of CPC Committee (黨委組織部幹事), head of External Affairs Department (涉外事務處處長), head of the Human Resources Division (人力資源部部長), vice chairman of the Labour Union and vice secretary and vice head of the technology and material research institute. Having joined the Company since 2008, she is currently the secretary to the Party Committee and the deputy general manager of the Company. Ms. Ren has long engaged in corporate organization and personnel affairs and has accumulated extensive experience in these areas. Ms. Ren graduated at Luoyang Industry College and Jiangsu Polytechnic University with a bachelor's degree and a master's degree in engineering respectively. She holds the title of Senior Political Engineer.

Mr. Qu Dawei, aged 42, joined China First Tractor Group in 1988. He had been head of Technological Equipment Research Institute, general manager of equipment and technology branch and deputy general manager and general manager of Spares Division of YTO Group. Having 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 other fields. Mr. Qu graduated from Huazhong University of Science and Technology with a master's degree. He holds the title of Senior Engineer.

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

Mr. Liu Jiguo, aged 44, 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 the Company. Having 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 Polytechnic University 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 51, once worked in the Luoyang Tractor Research 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 YTO (Luoyang) Diesel Engine Company Limited ("YLDC") and general manager of YTO (Luoyang) Engine Machinery Company Limited ("YEMC"). Having joined the Company in 2006, he is currently the deputy general manager of the Company, the general manager of Engine Machinery Division, the chairman of the board of directors of YLDC and the chairman of YEMC. 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 Polytechnic University and Wuhan University of Technology with a bachelor's degree in engineering and a master's degree in engineering respectively. He holds the title of Senior Engineer with professorships.

Mr. Jin Yang, aged 49, joined China First Tractor Group in 1993, where he had been workshop director, assistant to factory manager and factor manager, and had been deputy general manager of Construction Machinery Division of the Company. Having joined the Company in 2004, he is currently the deputy general manager of the Company and the general manager of Construction Machinery Division. Mr Jin is familiar with the machinery manufacturing technologies and equipment, and has extensive experience in business management, technics materials, production, operation and other fields. 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 is the chief financial officer of the Company. For her details, please refer to page 24 of this annual report.

REPORT OF THE DIRECTORS

The Board herein present the report and the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2008.

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 Reporting Period.

2. RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2008 and the financial status of the Company and the Group as at 31 December 2008 are set out in the financial statements in pages 63 to 180.

The Board recommends the payment of a final dividend in the amount of RMB0.05 per share for year 2008. 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 of the five working days before the declaration of dividends, representing a dividend of HK$0.0567 per H Share. The said dividend will be distributed on or before 19 August 2009 to shareholders whose names appear on the Company's register of members as at 20 May 2009. Payment of dividends is subject to the approval by the annual general meeting to be held on 19 June 2009. In order to determine the holders of H Shares who are entitled to receive 2008 final cash dividends, the Company's register of members will be closed from 20 May 2009 to 18 June 2009 (both days inclusive) during which period no transfer of H Shares will be effected. Holders of H Shares who wish to receive 2008 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 19 May 2009. The address of the share registrar Hong Kong Registrars Limited is Shops 1712-1716, 17th Floor, Hope well Centre, 183 Queen's Road East, Wanchai, Hong Kong.

According to the Enterprise Income Tax Law of the People's Republic of China and the Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China (collectively, the "Tax Law") which came into effect in 2008, as from 1 January 2008, any Chinese domestic enterprise which pays dividend to a non-resident enterprise shareholder in respect of accounting period beginning from 1 January 2008 shall withhold and pay enterprise income tax for such shareholder. As such, the Company as a Chinese domestic enterprise is required to withhold for payment the 10% enterprise income tax from the payment of the 2008 Final Dividend to holders of H shares of the Company who are non-resident enterprises (including but not limited to HKSCC Nominees Limited) and whose names are registered on the H shares register of members of the Company (the "H shares Register") on 20 May 2009, and the Company will distribute the dividend to the non-resident enterprises after deducting such tax.

The term "non-resident enterprise(s)" shall have the same meaning as defined under the Tax Law and its relevant rules and regulations when used in this report.

No deduction or withholding of enterprise income tax will be made in respect of the 2008 Final Dividend payable to any natural person shareholders listed on the H shares Register on 20 May 2009. Any natural person investor whose H shares are registered under the name of any non-resident enterprises and who does not wish to have the enterprise income tax to be withheld and paid by the Company, may consider transferring the legal title of the relevant H shares into his or her name and duly lodge all transfer documents together with the relevant H share certificates with the H share registrar of the Company for registration, at or before 4:30 p.m. on 19 May 2009.

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				
	2008	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**7,933,721**	7,102,150	6,101,451	4,765,828	4,246,554
Profit/(loss) before tax	**90,407**	237,804	87,467	(77,482)	23,813
Tax	**(9,528)**	(40,024)	(15,251)	17,183	(13,953)
Current Profit /(loss)	**80,879**	197,780	72,216	(60,299)	9,860
Minority interests	**(12,374)**	(16,018)	633	9,863	2,101
Net profit/(loss) attributable to equity holders of the parent	**68,505**	181,762	72,849	(50,436)	11,961

Consolidated assets, liabilities and minority interests

	Year ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**5,535,377**	5,488,083	4,991,222	3,821,630	3,649,665
Total liabilities	**(2,792,940)**	(2,735,190)	(2,623,173)	(1,644,175)	(1,412,889)
Minority interests	**(177,551)**	(177,848)	(170,018)	(146,536)	(159,645)
Total equity attributable to equity holders of the parent	**2,564,886**	2,575,045	2,198,031	2,030,919	2,077,131

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, there were no changes in the registered capital or share capital in share of the Company. It didi 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 of the Company ("Articles of Association") or the laws of the PRC which would oblige the Company to offer new shares of the Company on a pro rata basis to its existing shareholders.

7. REDEMPTION, SALE OR REPURCHASE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor its subsidiaries redeemed, sold or repurchased any of the Company's listed securities during the Reporting Period.

On 9 September 2008, the "Proposed Grant of General Mandate To Repurchase H Shares" ("Proposed Mandate") was considered and approved at the extraordinary general meeting and class meetings of the Company, pursuant to which the Board was authorized to repurchase up to a maximum of 10% of the number of H shares in issue of the Company, i.e. a maximum of 40,199,000 H shares. Upon approval by related authorities of the PRC, the Board can exercise the mandate for a term effective from 13 October 2008 until whichever is the earlier of:

1) the conclusion of the 2008 annual general meeting of the Company (no later than 30 June 2009);

2) the expiration of a period of twelve months following the passing of the relevant resolution at the extraordinary general meeting and class meetings;

3) the date on which the authority referred to in the "Proposed Mandate" conferred by the special resolution is revoked or varied by a special resolution of the shareholders in a general meeting or by a special resolution of holders of H shares or holders of domestic shares at their respective class meetings.

The Board has not exercised the mandate during the Reporting Period and as at the date of this report.

8. RESERVES

Details of movements in the reserves of the Company and the Group during the Reporting Period 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 2008 are set out in note 36(b) to the financial statements.

10. MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the five largest customers and suppliers of the Group respectively accounted for less than 30% of the total sales and purchases of the Group. So far as the Board is aware, none of the Directors, supervisors of the Company (the "Supervisors"), their associates or any shareholder who own 5% or above of the share capital of the Company had an interest in the major customers or suppliers 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 (resigned on 28 April 2008)
Mr. Li Youji
Ms. Dong Jianhong (appointed on 28 April 2008)
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. Zhao Shengyao
Mr. Xu Weilin
Mr. Kong Lingfu
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. Ms. Dong Jianhong entered into a service contract with the Company on 28 April 2008. These service contracts are the same in all material respects, details of which are set out as below:

1) Each service contract commences from the date of contract to 30 June 2009 and that of Mr. Zhang Jing expired on 28 April 2008.

2) The total annual salaries payable to each of the executive Directors each year for the three years term from 1 July 2006 will be RMB60,000, RMB66,000 and RMB72,600 respectively; the total annual salaries payable to each of the Supervisors each year for the three years term will be RMB36,000, RMB39,600 and RMB43,560 respectively; and

3) 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 each of independent non-executive Directors in respect of their respective 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 Reporting Period and as at the date of this report, save as the service contracts stated in section 12, none of the 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 IN COMPETING BUSINESS

During the Reporting Period 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.

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

During the Reporting Period, no rights were granted to any Directors, Supervisors, or their respective spouse or minor children, which would have enabled they to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other corporations; nor was the Company, its subsidiaries or holding company, or its holding company's subsidiaries a party to any arrangement to enable the Directors or Supervisors to acquire such rights in the Company or any other corporations.

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

As at 31 December 2008, none of the Directors, Supervisors and chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including the interests considered or deemed to be held by such Directors, Supervisors and chief executives under provisions such as the Securities and Futures Ordinance), or as recorded in the register required to be kept by the Company under section 352 of the Securities and Futures Ordinance, or to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

17. CONTRACTS OF SIGNIFICANCE

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

18. CHANGES IN SHAREHOLDING AND STRUCTURE OF EQUITY INTERESTS OF SHAREHOLDERS

As at 31 December 2008, the total issued Shares of the Company amounted to 845,900,000 Shares. Its structure of equity interests was as follows:

Class 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 on the Stock Exchange (the "H Shares")	401,990,000	47.52
Total share capital	845,900,000	100.00

19. SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the following shareholders of the Company had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the Securities and Futures Ordinance:

Domestic Shares

Name of shareholder	Nature of interests	Number of shares	Approximate percentage of the total issued share capital of the Company
YTO Group Corporation ("YTO Group")	Beneficial owner	443,910,000[1]	52.48

H Shares

Name of shareholder	Nature of interests	Number of shares	Approximate percentage of the total issued share capital of the Company
DnB NOR Asset Management (Asia) Limited	Investment manager	47,748,000[1]	11.88%
UBS AG	Investment manager	17,046,000[1]	5.09%
JPMorgan Chase & Co.	Investment manager	20,158,000[1]	5.01%
		19,038,000[2]	4.74%

Note:

1. Relevant entities' long position in the shares of the Company.

2. Lending pool.

Save as disclosed above, there was no other person who, as at 31 December 2008, 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 Securities and Futures Ordinance.

On the basis of the 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.

20. CONNECTED TRANSACTIONS

Details of the Group's connected transaction (within the meaning under the Listing Rules) are set out in note 44 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 the same date, 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 transaction 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 of the Company 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 independent third party customers of the Group; and

3) entered into on terms that are fair and reasonable so far as the interests of the Company's shareholders as a whole are concerned.

After reviewing the above connected transactions for the year, the auditors of the Company confirmed that the above connected transactions have been in compliance with Rule 14A.38 of the Listing Rules.

21. 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 loan facility for a maximum amount of RMB50,000,000 granted by Pudong Bank to YTO (Luoyang) Fuel Pump Company Limited ("Fuel Pump 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 Pump Company has been expired and settled and the share pledges was released in February 2008.

22. 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, all proceeds were applied in the technical renovation project of medium and large wheeled tractors and used as supplementary working capital.

23. SIGNIFICANT EVENTS

1) In order to enhance utilization rate of resources of the construction machinery business, the Company integrated the construction machinery segment. On 17 November 2008, the Company acquired all 60% of equity interests of the Company's subsidary YTO (Luoyang) Construction Machinery Sales Co., Ltd. ("YLCMS") held by other shareholders at a total consideration of RMB2,077,500. Upon the completion of the acquisition, YLCMS became a wholly-owned subsidiary of the Company. On 4 December 2008, the Company injected a capital of RMB17 million to YLCMS. Subsequent to the completion of the capital increase, the registered capital of YLCMS increased from RMB8 million to RMB25 million. On 25 November 2008, the Company executed an equity transfer agreement with YLCMS, pursuant to which the Company transferred 49% of equity interests in YTO (Luoyang) Building Machinery Co., Ltd. and YTO (Luoyang) Construction Machinery Co., Ltd. respectively at considerations of RMB6.8799 million and RMB9.9352 million respectively to YLCMS. The prices of the above equity transfer were determined in accordance with the appraisals of relevant companies by appraisal institutions.

2) In order to reduce the operating cost of harvesters, the Company integrated the harvester segment. On 5 October 2008, the Company established a harvester factory mainly engaged in the production of harvesters. YTO (Luoyang) Harvester Co., Ltd. ("Harvester Company"), a subsidiary of the Company, was principally engaged in the sales of harvesters products. On 31 October 2008, the Company transferred its 93.91% of equity interest in Harvester Company to Luoyang Changxing Agriculture Machinery Company Limited, a subsidiary of the Company. The consideration for the equity transfer amounted to RMB10,000. The consideration at which the equity transfer was conducted was determined with reference to the appraised value valued by appraisal institutions.

3) In order to meet the needs of the Company in business development and to fully reflect the Company's performance in production and operation, the Company convened an extraordinary general meeting on 9 September 2008, at which the addition of the development and production of products such as construction machinery and diesel engines into the business scope of the Company was approved. The change in the scope of business of the Company was subject to review and approval by the Ministry of Commerce of the PRC pursuant to relevant laws and regulations in the PRC.

4) On 28 April 2008, an extraordinary general meeting of the Company was held to approve that Mr. Zhang Jing be ceased to serve as a Director of the Company due to work rearrangement and Ms. Dong Jianhong was appointed as a Director of the Company.

5) On 21 October 2008, the Board of the Company determined to appoint Ms. Ren Huijuan as the deputy general manager of the Company as nominated by the general manager (the biography of Ms. Ren Huijuan is set out on page 28 of this annual report).

24. POST BALANCE SHEET EVENTS

On 26 March 2009, BCM, a subsidiary of the Company, signed the Huachen Huatong Road Machinery Company Limited Equity Transfer Agreement and the Huatong Aran Machinery Co., Ltd. Equity Transfer Agreement with Singapore Commuter Private Limited ("Singapore Commuter"), an independent third party, pursuant to which BCM agreed to sell the 59% equity interest held in the two companies respectively. The sale proceeds will be used to supplement working capital of BCM.

On 15 April 2009, the Company and China-Africa Development fund Company Limited ("CADF") entered into the investment Agreement relating to the formation of a joint venture company in Mainland China. Pursuant to the Investment Agreement, the Company and CADF will contribute cash of RMB137,500,000 and RMB112,500,000, representing 55% and 45% of the equity holdings of the joint venture company, respectively, to the joint venture company as its registered capital within 5 years from the effective date of the Investment Agreement.

25. CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is of the opinion that the Company has complied with the requirements of all code provisions of the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules during the Reporting Period. Details are set out in the Corporate Governance Report of this annual report.

26. MATERIAL LITIGATION

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

27. AUDITORS AND QUALIFIED ACCOUNTANTS

Ernst & Young will be retired and a resolution for its reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company. The Company had not changed its auditor over the past three years.

During the Reporting Period, the Company has not yet appointed a qualified accountant. The provision in relation to the appointment of qualified accountant under the original Rule 3.24 had been revoked by the listing rules as amended on 1 January 2009.

28. TAX CONCESSION

Holders of listed securities of the Company were not granted any tax concession for holding securities of the Company.

By order of the Board
Liu Dagong
Chairman

Luoyang, the PRC
20 April 2009

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 (the "Code"), 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.

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, Li Youji, Dong Jianhong, 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 23 to 26 of this annual report.

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 economic 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 and final accounting scheme, and annual business plans, proposing dividend plans as well as supervising management members in accordance with relevant laws and regulations, 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 business operations. The general manager keeps in contact with all Directors and ensures Directors' timely understanding of information in relation to operating activities.

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.

CORPORATE GOVERNANCE REPORT *(continued)*

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

	Name of Directors	Number of attendance/number of possible attendance
Chairman	Mr. Liu Dagong	11/11
Executive Directors	Mr. Zhao Yanshui	11/11
	Mr. Liu Wenying	11/11
	Mr. Yan Linjiao	11/11
	Mr. Li Tengjiao	11/11
	Mr. Shao Haichen	11/11
	Mr. Zhang Jing	0/5
	Mr. Li Youji	8/11
	Ms. Dong Jianhong	6/6
	Mr. Liu Shuangcheng	11/11
	Mr. Zhao Fei	11/11
Independent non-executive Directors	Mr. Lu Zhongmin	7/11
	Mr. Chen Sau Shan, Gary	6/11
	Mr. Chen Zhi	6/11
	Mr. Luo Xiwen	5/11

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

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

The Board convened four regular meetings this year. Before holding of each regular meeting, notice was delivered fourteen days prior to the date of the regular 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 all Directors before the date of the meeting. Notices of other Board meetings have also been delivered within a reasonable time 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.

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 23 of this annual report.

During the Reporting Period, 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

During the Reporting Period, the term of the four independent non-executive Directors of the Company is three years from 1 July 2006 to 30 June 2009.

All of the four independent non-executive Directors of the Company possess proper professional qualifications, among which, Mr. Lu Zhongmin, Mr. Chen Zhi and Mr. Luo Xiwen are expertise in agricultural machinery while Mr. Chen Sau Shan, Gary has professional qualifications and extensive experience in respect of accounting and financial management.

SECURITIES TRANSACTION BY DIRECTORS

During the Reporting Period, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiries of all Directors, they have complied with the Modal Code.

DUTIES OF DIRECTORS IN RESPECT OF FINANCIAL STATEMENTS

The Directors of the Company 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 this annual report, but such statement and the Directors' declaration should be independent from each other.

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

The Directors of the Company 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 which comprises Mr. Chen Zhi (Chairman), Mr. Liu Dagong and Mr. Lu Zhongmin. The terms of reference thereof is set out as follows:

(a) to study and formulate remuneration policies for Directors and senior management with consideration to the factors including the salaries paid by comparable companies, the time commitment and responsibilities of the Directors and senior management and the remuneration of other positions within the Group, ensuring that the remuneration policies are commensurate with their responsibilities, performances and contributions;

(b) to propose the terms of service contracts of the Directors pursuant to the requirements under Rule 13.68 of the Listing Rules and give advice to the shareholders in respect of Directors' service contracts which are subject to approval at general meetings; and

(c) to assess the performance of executive Directors after taking into consideration of the Group's annual operating results and give advice to the Board.

During the Reporting Period, the Remuneration and Review Committee convened one meeting to discuss matters relating to Directors' remuneration with the attendance of Mr.Chen Zhi, Mr. Liu Dagong and Mr. Lu Zhongmin. Details of the Directors' remuneration are set out on note 8 to the financial statements.

NOMINATION OF DIRECTORS

Elections and changes of Directors are subject to the consideration in general meetings pursuant to the requirements of the Articles of Association. Shareholders holding 5% or more (including 5%) of the total number of shares carrying voting rights of the Company have the right to raise a proposal, provided that a written notice as regards the intention to nominate a candidate as director and the willingness of such candidate to accept the nomination should be delivered to the Company not less than 7 days before the date of the general meeting. Notice of a general meeting shall be given not less than 45 days and not more than 60 days before the date of the meeting. In case that the Company receives a written notice to nominate a director from a shareholder after publication of the notice of general meeting, the Company must issue an announcement or a supplementary circular as required by Rule 13.70 of the Listing Rules. The announcement or supplementary circular shall include information of the nominated director candidate. The Company must also assess whether it is necessary to adjourn the meeting of the election to give the shareholders at least 14 days to consider the relevant information disclosed in the announcement or supplementary circular and to vote on their discretion. Consent of more than half of the shareholders (including their proxies) with voting right present at the meeting is required for the election of a new director.

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 nominations of Directors are made on the basis of, among others, expertise, work experience, diligence, and level of knowledge in a fair and objective manner.

During the Reporting Period, 1 meeting was held by the Board to discuss matters in relation to the nomination of Directors. All Directors attended the meeting with the exception of Director Zhang Jing.

AUDITORS' REMUNERATION

Ernst & Young and Ernst & Young Hua Ming were appointed as the international and the PRC auditors of the Group respectively. They were responsible for the audit in relation to the financial statements prepared under the Hong Kong Financial Reporting Standards and PRC Accounting Standards respectively.

An aggregate amount of RMB6,380,000 was charged for their services during the Reporting Period, which included taxes and disbursements. Among the total remuneration, RMB5.5 million represented the annual audit fee and RMB0.88 million represented the agreed-upon procedures fee. During the Reporting Period, Ernst & Young has also provided relevant services of profits tax returns, with a charge of RMB8,500. The Board considers that provision of the aforesaid services to the Company has no influence on the independency of Ernst & Young and Ernst & Young Hua Ming.

AUDIT COMMITTEE

As required in the Listing Rules, the Company has set up Audit Committee. The terms of reference thereof are in compliance with C.3.3 of the Code, and relevant policies, law and regulations that the Company is subject to, and include but are not limited to:

(i) to oversee the relationship with the external auditors, including but not limited to providing advice on the appointment, reappointment and removal of external auditors to the Board, approving the audit fee and terms of appointment of external auditors, and raising any questions in respect of their resignations or dismissals;

(ii) to review the annual and interim financial reports of the Company whether they are in compliance with the accounting standards and relevant requirements in respect of financial reporting under the Listing Rules and other laws;

(iii) to regulate and review the effectiveness of the internal control system of the Company, which involves reviewing the finance, operation, regulatory compliance and risk management of the Company, particularly the implementation of connected transactions;

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

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

During the Reporting Period, the Audit Committee of the Company 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 general manager, the financial controller and the external auditors of the Company. Attendances of the members of the Company's Audit Committee are as follows,

Name	**Number of attendance/ number of possible attendance**
Mr. Lu Zhongmin	4/4
Mr. Chan Sau Shan	4/4
Mr. Chen Zhi	2/4

The financial report of the Company for year 2007 and the interim financial report of the Company for year 2008 were reviewed by the Audit Committee of the Company. The Audit Committee has also reviewed the audited report of the Group's annual results for the year 2008 and the implementation of connected transactions.

There is no disagreement between the Audit Committee and the Board of the Company on the matters in relation to the appointment of external auditors.

INTERNAL CONTROL

In order to be complied with relevant regulations, strengthen the management of internal control of the Company and assure a proper and effective internal control system, the Company formulated a series of internal controls and management standards and examined the overall financial position of the Company to secure the Company's assets. It also standardised the Company's operation and management process, to ensure that decisions of the Board were in compliance with the laws and regulations and were implemented.It conducted regular supervision on risk management for avoidance of materials risks or losses. 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.

During the Reporting Period, 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 and has reviewed and discussed the internal control system of the Company.

INVESTOR RELATIONS

During the Reporting Period, there was no other material change in the Articles of Association of the Company other than the amendments made on the general meeting held on 9 September 2008 according to the adjustment to business scope.

Details of the shareholder category of the Company and total number of holdings were set out from Page 37 to Page 38 of this annual report. The capitalization of public float of the Company reached HK$739,661,600 as at 31 December 2008.

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 resolution on the Annual General Meeting held on 13 June 2008 and the Extraordinary General Meeting held on 9 September 2008, and all the resolutions were approved.

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

By order of the Board
Liu Dagong
Chairman

Luoyang, the PRC
20 April 2009

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 (the "Supervisory Committee") of the Company, in compliance with the principles of good faith and integrity, being responsible to the shareholders and the Company, prudently and diligently discharged their supervising duties and committed to protecting the legal interests of the shareholders 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 of the Company convened two meetings in accordance with the requirements of the Company Law and the Articles of Association of the Company.

   (1) On 18 April 2008, the Supervisory Committee of the Company convened a meeting. All Supervisors attended the meeting at which the following proposals were considered and approved:

      i) the report of the Supervisory Committee for the year 2007;

      ii) the financial statements of the Company prepared under relevant Hong Kong and PRC accounting principles for the year 2007;

      iii) connected transactions between the Group and the controlling shareholder during the year 2007.

   (2) On 22 August 2008, the Supervisory Committee of the Company convened a meeting. All Supervisors attended the meeting at which the interim financial report for the year 2008 were considered and approved.

2. During the Reporting Period, the Supervisors of the Company attended the Directors' meetings, participated in the Company's major activities, monitored the matters resolved by the Board and discharged their duties of supervising the Directors, the general manager and other senior management staff of the Company.

INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY IN 2008 ARE AS FOLLOWS:

1. During the Reporting Period, the Supervisory Committee of the Company 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 of the Company, the Board managed to standardize the Company's operation in accordance with the Company Law, Articles of Association of the Company and relevant laws, regulations and systems. The Directors and the senior management were devoted to duty, acted in compliance with rules and laws and upheld in the interest of all shareholders and the Company.

2. During the Reporting Period, the Company had no material litigation nor did the Supervisory Committee of the Company have any negotiations with the Directors of the Company or bring any actions against them on behalf of the Company.

3. The Supervisory Committee of the Company is in the view that, during the Reporting Period, the connected transactions are fair and reasonable and carried out in accordance with the interests of the shareholders of the Company as a whole and there have not any actions infringing the interests of the shareholders.

4. The Supervisory Committee of the Company considers that the financial statements of the Group for the year ended 31 December 2008 which have been audited by Ernst & Young, Certified Public Accountants, reflect a true and fair view of the operating results and assets of the Group in year 2008.

5. The Supervisory Committee of the Company reviewed the financial statements and the proposal of profit distribution, which were proposed to the general meeting by the Directors. The Supervisory Committee of the Company 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 2009, the Supervisory Committee of the Company 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
20 April 2009

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 Reporting Reriod, all of the Group's financial operations were conducted in the PRC.

CORPORATE GOVERNANCE

A subsidiary of the Company, China First Tractor Group Finance Company Limited ("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 China Banking Regulatory Commission ("CBRC"). The Board 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 is responsible for formulating and amending its internal control system and performing audit, evaluation and research thereof; enforcing penalty in respect of any act in violation of the internal control system; accepting supervision and auditing of its control system by CBRC; and filing internal control information to CBRC in accordance with the relevant requirements. The director, deputy director and members of the internal control committee are selected at the General Manager Working Meeting of the FTGF. The general manager of FTGF shall not be a member of the internal control committee, but may attend the meetings of the internal control committee to provide opinions. Only meetings attended by over 2/3 of the committee members may make valid resolutions. The meetings implement one person one vote system. A valid resolution is subject to approval from more than half of the members of the internal control committee.

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 director, deputy director and members of the assets-liabilities management committee are selected at the General Manager Working Meeting of the FTGF. The general manager of FTGF shall not be a member of the assets-liabilities management committee, but may attend the meetings of the assets-liabilities management committee to provide opinions. Only meetings attended by over 2/3 of committee members may make valid resolutions. The meetings implement one person one vote system. A valid resolution is subject to approval from more than half of the members of the assets-liabilities management committee.

LOAN APPROVAL COMMITTEE

The loan approval committee is responsible for risks review and assessment of loans and approval within its authorities of loans submitted for consideration by the business department, and accountable for mistakes in review. The director, deputy director and members of the loan approval committee are selected at the General Manager Working Meeting of the FTGF. The general manager of FTGF shall not be a member of the loan approval committee, but may attend the meetings of the loan approval committee to provide opinions. Only meetings attended by over 2/3 of committee members may make valid resolutions. The meetings implement one person one vote system. A valid resolution is subject to approval from more than half of the members of the loan approval committee.

INVESTMENT AUDIT COMMITTEE

The investment audit committee is fully responsible for review of FTGF'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 FTGF, and approval of investment schemes and proposals. The director, deputy director and members of the investment audit committee are selected at the General Manager Working Meeting of the FTGF. The general manager of FTGF shall not be a member of the investment audit committee, but may attend the meetings of the investment audit committee to provide opinions. Only meetings attended by over 2/3 of committee members may make valid resolutions. The meetings implement one person one vote system. A valid resolution is subject to approval from more than half of the members of the investment audit committee.

RISK MANAGEMENT COMMITTEE

The responsibility of risk management committee is to implement regular overall evaluation and risk assessment for operations of the FTGF, formulate risk control system for all operations of the FTGF and report to the Board of the FTGF and CBRC on regular basis. The director, deputy director and members of the risk management committee are selected at the General Manager Working Meeting of the FTGF. The general manager of FTGF shall not be a member of the risk management committee, but may attend the meetings of the risk management committee to provide opinions. Only meetings attended by over 2/3 of committee members may make valid resolutions. The meetings implement one person one vote system. A valid resolution is subject to approval from more than half of the members of the risk management committee.

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 criteria and approving system to control and manage credit risks. The loan approval committee is responsible for formulating credit policies and determining the cap of facilities, and each credit transaction is subject to a collective consideration and approval under conservative and prudent policies. The auditing department of FTGF is responsible for supervision over 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 arrangements to minimise the exposure. The credit department and marketing department periodically reported the latest interest rates and price movement in capital market, as well as the developing trend of the relevant State macro financial policies to the loan approval committee and the investment audit committee.

SUPPLEMENTARY INFORMATION *(continued)*

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 each of the 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 standard of the company 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 2008 annual general meeting (the "**AGM**") of First Tractor Company Limited (the "**Company**") will be held at 9:00 a.m. on Friday, 19 June 2009 at No. 154 Jianshe Road, Luoyang, Henan Province, the People's Republic of China (the "**PRC**") for the purpose of passing the following resolutions:

(1) AS ORDINARY RESOLUTIONS:

1. To consider and approve the report of the board of directors of the Company for the year 2008.

2. To consider and approve the report of the supervisory committee of the Company for the year 2008.

3. To consider and approve the audited financial report for the year 2008.

4. To consider and approve the distribution proposal of the Company in respect of the dividend for the year ended 31 December 2008.

5. To consider and approve the re-appointment of Ernst & Young as auditors of the Company for the year 2009 and to authorise the board of directors to determine their remuneration.

6. To consider and approve the appointment of the following nominees to be Directors of the fifth board of directors for a term of three years from 1 July 2009 to 30 June 2012:

    1. Mr. Liu Dagong;
    2. Ms. Dong Jianhong;
    3. Mr. Qu Da Wei;
    4. Mr. Li Xibin;
    5. Mr. Zhao Yanshui;
    6. Mr. Yan Linjiao;
    7. Mr. Liu Yongle;
    8. Mr. Shao Haichen;
    9. Mr. Chan Sau Shan, Gary;
    10. Mr. Chen Zhi;
    11. Mr. Luo Xiwen; and
    12. Mr. Hang Xianguo

    Details of the above nominated Directors are set out in the announcement and circular of the Company both dated 28 April 2009.

NOTICE OF ANNUAL GENERAL MEETING *(continued)*

7. To consider and approve the appointment of the following nominees to be supervisors (to be elected by the shareholders of the Company) of the fifth Supervisory Committee for a term of three years from 1 July 2009 to 30 June 2012:

   1. Mr. Zheng Luyu;
   2. Ms. Yi Liwen;
   3. Mr. Wang Yong; and
   4. Mr. Huang Ping

   Details of the above nominated supervisors to be elected by the shareholders of the Company are set out in the announcement and circular of the Company both dated 28 April 2009.

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

(2) AS SPECIAL RESOLUTIONS:

1. Subject to the accumulated limit not exceeding 50% of the net assets of the Company and compliance with provisions under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in relation to, among other things, shareholders' approval, 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.

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

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

   (a) the conclusion of the next annual general meeting following the passing of this special resolution;

   (b) the last day of the 12 months from the date of passing this resolution; and

   (c) the date on which the authorisation under this resolution is revoked or amended by a special resolution passed at a general meeting of the Company.

3. To authorise the Board to declare an interim dividend to the shareholders of the Company for the half year ended 30 June 2009.

4. To consider and approve the proposed amendments to the Articles of Association of the Company (details of which are set out in Appendix I of the circular dispatched to shareholders of the Company on 28 April 2009) and that any Director be and is hereby authorised to modify the wordings of such amendments as appropriate (such amendments will not be required to be approved by the shareholders of the Company) and execute all such documents and/or do all such acts as the Directors may, in their absolute discretion, deem necessary or expedient and in the interest of the Company in order to effect the provision of Corporate Communications to the holders of the Company's H Shares through the Company's own website and the website of the Stock Exchange, comply with the changes in the PRC laws and regulations, and satisfy the requirements (if any) of the relevant PRC authorities, and to deal with other related issues arising from the amendments to the Articles of Association of the Company.

   For purpose of this resolution, "Corporate Communication(s)" means any document issued or to be issued by the Company for the information or action of holders of any of its securities, including but not limited to: (a) the directors' report, its annual accounts together with a copy of the auditor's report and its summary financial report; (b) the interim report and its summary interim report; (c) a notice of meeting; (d) a listing document; (e) a circular; and (f) a proxy form.

5. To authorize the Board of the Company to repurchase H Shares subject to the following conditions:

   (a) subject to paragraphs (b) and (c) below, during the Relevant Period (as defined in paragraph (d) below), the Board may exercise all the powers of the Company to repurchase H Shares in issue of the Company on the Stock Exchange, subject to and in accordance with all applicable laws, rules and regulations and/or requirements of the governmental or regulatory body of securities in the PRC, the Stock Exchange or of any other governmental or regulatory body be and is approved;

   (b) the aggregate nominal value of H Shares authorized to be repurchased pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10 per cent of the aggregate nominal value of H Shares in issue of the Company as at the date of the passing of this resolution;

   (c) the approval in paragraph (a) above shall be conditional upon:

      (i) the passing of a special resolution in the same terms as this Special Resolution No. 5 (except for this sub-paragraph (c)(i)) at the class meeting for holders of H Shares of the Company to be held on 19 June 2009 (or on such adjourned date as may be applicable); and the class meeting for holders of domestic shares of the Company to be held on 19 June 2009 (or on such adjourned date as may be applicable); and

      (ii) the approval of the State Administration of Foreign Exchange of the PRC and/ or any other regulatory authorities as may be required by the laws, rules and regulations of the PRC being obtained by the Company if appropriate;

NOTICE OF ANNUAL GENERAL MEETING *(continued)*

(d) for the purpose of this special resolution, "Relevant Period" means the period from the passing of this special resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting following the passing of this special resolution;

(ii) the expiration of a period of twelve months following the passing of this special resolution; or

(iii) the date on which the authority set out in this special resolution is revoked or varied by a special resolution of the members of the Company in any general meeting or by a special resolution of holders of H Shares or holders of domestic shares of the Company at their respective class meetings; and

(e) subject to approval of all relevant governmental authorities in the PRC for the repurchase of such H Shares being granted, the Board be hereby authorized to:

(i) make such amendments to the Articles of Association of the Company as it thinks fit so as to reduce the registered capital of the Company and to reflect the new capital structure of the Company upon the repurchase of H Shares as contemplated in paragraph (a) above; and

(ii) file the amended Articles of Association of the Company with the relevant governmental authorities of the PRC.

Notes:

1. The register of members of the Company will be temporarily closed from 20 May 2009 to 18 June 2009 (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 the transfer of the H Shares of the Company should be made on 19 May 2009 at Hong Kong Registrars Limited by or before 4:00 p.m. The Shareholders or their proxies being registered before the close of business on 19 May 2009 are entitled to attend the AGM by presenting their identity documents. The address of Hong Kong Registrars Limited, the H Share registrar of the Company, is Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

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

NOTICE OF ANNUAL GENERAL MEETING *(continued)*

3. Shareholders can appoint a proxy by an instrument in writing (i.e. by using the Proxy Form enclosed). The Proxy Form shall be signed by the person appointing the proxy or an attorney authorised by such person in writing. If the Proxy Form is signed by an attorney, the power of attorney or other documents of authorization shall be notarially certified. To be valid, the Proxy Form and the notarially certified power of attorney or other documents of authorisation must be delivered to the Company's registered address at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC, or the Company's H Share registrar, Hong Kong Registrars Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in not less than 24 hours before the time scheduled for the holding of the AGM or any adjournment thereof.

4. Shareholders who intend to attend the AGM are requested to deliver the duly completed and signed reply slip for attendance to the Company's registered and principal office in person, by post or by facsimile on or before 4:00 p.m., 29 May 2009.

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

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

7. The Company's registered address:

   No. 154 Jianshe Road, Luoyang, Henan Province, the PRC
   Postal code: 471004
   Telephone: (86379)6496 7038
   Facsimile: (86379)6496 7438
   Email: msc0038@ytogroup.com

As at the date of this notice, the Board comprises ten executive Directors, namely Mr. Liu Dagong, Mr. Zhao Yanshui, Mr. Liu Wenying, Mr. Yan Linjiao, Mr. Li Tengjiao, Mr. Shao Haichen, Mr. Li Youji, Ms. Dong Jianhong, Mr. Liu Shuangcheng and Mr. Zhao Fei and four independent non-executive Directors, namely Mr. Lu Zhongmin, Mr. Chan Sau Shan, Gary, Mr. Chen Zhi and Mr. Luo Xiwen.

Luoyang, the PRC
28 April 2009

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

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

We have audited the financial statements of First Tractor Company Limited set out on pages 63 to 180, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 2008 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
18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong
20 April 2009

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	**2008** *RMB'000*	2007 *RMB'000*
REVENUE	5	**7,933,721**	7,102,150
Cost of sales		**(7,108,592)**	(6,255,184)
Gross profit		**825,129**	846,966
Other income and gains	5	**40,131**	168,606
Selling and distribution costs		**(272,187)**	(273,866)
Administrative expenses		**(402,624)**	(395,811)
Other expenses		**(62,317)**	(63,853)
Finance costs	7	**(37,643)**	(31,589)
Share of profits and losses of associates		**(82)**	(12,649)
PROFIT BEFORE TAX	6	**90,407**	237,804
Tax	10	**(9,528)**	(40,024)
PROFIT FOR THE YEAR		**80,879**	197,780
Attributable to:			
Equity holders of the parent	11	**68,505**	181,762
Minority interests		**12,374**	16,018
		80,879	197,780
DIVIDENDS	12		
Proposed final		**42,295**	25,377
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**RMB8.10 cents**	RMB22.82 cents

CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,163,237**	1,256,455
Prepaid land premiums	15	**79,158**	30,374
Goodwill	16	**52,990**	52,990
Interests in associates	18	**18,918**	19,800
Available-for-sale investments	19	**106,959**	187,150
Loans receivable	20	**214,123**	83,554
Deferred tax assets	33	**49,107**	28,331
Total non-current assets		**1,684,492**	1,658,654
CURRENT ASSETS			
Inventories	21	**842,003**	841,800
Trade and bills receivables	22	**813,872**	925,946
Loans receivable	20	**209,069**	194,215
Bills discounted receivable	23	**129,283**	56,053
Prepayments, deposits and other receivables	24	**410,310**	465,326
Equity investments at fair value through profit or loss	26	**4,444**	47,365
Pledged bank balances	27	**366,357**	151,640
Cash and cash equivalents	27	**758,535**	1,147,084
		3,533,873	3,829,429
Assets of a disposal group classified as held for sale	39	**317,012**	—
Total current assets		**3,850,885**	3,829,429
CURRENT LIABILITIES			
Trade and bills payables	28	**1,448,998**	1,144,065
Other payables and accruals	29	**443,778**	575,971
Customer deposits	31	**198,217**	131,231
Interest-bearing bank borrowings	32	**167,000**	459,900
Tax payable		**12,913**	20,824
Provisions	30	**28,084**	34,153
		2,298,990	2,366,144
Liabilities directly associated with the assets of a disposal group classified as held for sale	39	**206,263**	—
Total current liabilities		**2,505,253**	2,366,144
NET CURRENT ASSETS		**1,345,632**	1,463,285
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,030,124**	3,121,939

CONSOLIDATED BALANCE SHEET *(continued)*

31 December 2008

	Notes	**2008** **RMB'000**	2007 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	32	**144,000**	214,000
Deferred income	34	**103,774**	105,154
Deferred tax liabilities	33	**4,332**	25,225
Provisions	30	**35,581**	24,667
Total non-current liabilities		**287,687**	369,046
Net assets		**2,742,437**	2,752,893
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	35	**845,900**	845,900
Reserves	36(a)	**1,676,691**	1,703,768
Proposed final dividend	12	**42,295**	25,377
		2,564,886	2,575,045
Minority interests		**177,551**	177,848
Total equity		**2,742,437**	2,752,893

Liu Dagong
Director

Yan Linjiao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

		Attributable to equity holders of the parent														
	Notes	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))*							
At 1 January 2008		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
Changes in fair values of available-for-sale investments		—	—	—	—	—	—	—	—	(50,386)	—	—	—	(50,386)	—	(50,386)
Exchange realignment		—	—	—	—	—	—	—	—	—	(2,901)	—	—	(2,901)	—	(2,901)
Total income and expense recognised directly in equity		—	—	—	—	—	—	—	—	(50,386)	(2,901)	—	—	(53,287)	—	(53,287)
Profit for the year		—	—	—	—	—	—	—	—	—	—	68,505	—	68,505	12,374	80,879
Total income and expense for the year		—	—	—	—	—	—	—	—	(50,386)	(2,901)	68,505	—	15,218	12,374	27,592
Dividends paid to minority shareholders		—	—	—	—	—	—	—	—	—	—	—	—	—	(12,671)	(12,671)
Final 2007 dividend declared		—	—	—	—	—	—	—	—	—	—	—	(25,377)	(25,377)	—	(25,377)
Proposed final 2008 dividend	12	—	—	—	—	—	—	—	—	—	—	(42,295)	42,295	—	—	—
Transfers from/(to) reserves	36(a)	—	—	13,824	—	—	217	217	304	—	—	(14,562)	—	—	—	—
At 31 December 2008		845,900	1,539,938*	113,519*	—*	64,744*	3,590*	2,573*	5,145*	24,546*	(11,673)*	(65,691)*	42,295	2,564,886	177,551	2,742,437

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

Year ended 31 December 2008

		Attributable to equity holders of the parent														
	Notes	Issued capital RMB'000 (note 35)	Share premium account RMB'000 (note 35)	Statutory surplus reserve RMB'000 (note36(a))	Statutory public welfare fund RMB'000	General surplus reserve RMB'000 (note36(a))	Reserve fund RMB'000 (note36(a))	Enterprise expansion fund RMB'000 (note36(a))	General and statutory reserve RMB'000 (note36(a))	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
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

* These reserve accounts comprise the consolidated reserves of RMB1,676,691,000 (2007: RMB1,703,768,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	Notes	**2008**	2007
		RMB'000	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**90,407**	237,804
Adjustments for:			
Finance costs	7	**37,643**	31,589
Share of profits and losses of associates		**82**	12,649
Interest income	5, 6	**(51,513)**	(39,239)
Loss on disposal of items of property, plant and equipment, net	6	**494**	1,862
Gain on disposal of a subsidiary	5, 6	**—**	(90)
Depreciation	6	**124,678**	115,393
Amortisation of prepaid land premiums	6	**3,595**	742
Impairment of items of property, plant and equipment	6	**—**	14,500
Dividend income from unlisted investments	5, 6	**(3,000)**	(3,850)
Dividend income from listed investments	5, 6	**(2,833)**	(270)
Gain on disposal of available-for-sale investments	5, 6	**(4,138)**	(73,780)
Loss/(gain) on disposal of listed equity investments at fair value through profit or loss, net	5, 6	**3,944**	(35,772)
Provision for impairment of trade receivables, net	6	**27,969**	23,864
Provision/(reversal of provision) for impairment of other receivables, net	6	**4,603**	(15,036)
Net charge for impairment losses of loans receivable	6	**99**	3,855
Net charge for impairment losses of bills discounted receivable	6	**1,403**	(1,652)
Reversal of provision for obsolete inventories, net	6	**(4,472)**	(3,766)
Recognition of government grants	5	**(4,692)**	(3,898)
Fair value (gain)/loss on listed equity investments at fair value through profit or loss, net	5, 6	**7,467**	(7,565)
		231,736	257,340

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
(Increase)/decrease in inventories		**(70,662)**	14,332
(Increase)/decrease in loans receivable		**(145,522)**	39,896
Increase in trade and bills receivables		**(14,929)**	(205,036)
(Increase)/decrease in bills discounted receivable		**(74,633)**	165,160
(Increase)/decrease in prepayments, deposits and other receivables		**7,611**	(101,526)
(Increase)/decrease in equity investments at fair value through profit or loss		**31,510**	(541)
Increase/(decrease) in provisions		**7,128**	(1,800)
Increase/(decrease) in trade and bills payables		**393,333**	(135,231)
Increase/(decrease) in customer deposits		**66,986**	(25,583)
Increase/(decrease) in other payables and accruals		**(109,893)**	101,291
Cash generated from operations		**322,665**	108,302
Interest received		**51,513**	39,239
Interest paid		**(37,643)**	(31,589)
Income tax paid		**(39,268)**	(29,860)
Net cash inflow from operating activities		**297,267**	86,092

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received from unlisted investments		**3,000**	3,850
Dividends received from listed investments		**2,833**	270
Purchases of items of property, plant and equipment	14	**(121,622)**	(186,546)
Proceeds from disposal of items of property, plant and equipment		**34,451**	27,843
Increase in prepaid land premiums		**(71,708)**	(10,924)
Purchases of available-for-sale investments		**—**	(14,162)
Proceeds from disposal of available-for-sale investments		**26,529**	107,100
Proceeds from disposal of prepaid land premiums		**10,925**	—
Acquisition of additional interests in subsidiaries		**—**	(5,046)
Receipt of government grants		**6,064**	84,650
Interests in an associate		**—**	(12,000)
Disposal of a subsidiary	37	**—**	434
(Increase)/decrease in mandatory reserve deposits with the People's Bank of China		**18,273**	(41,078)
(Increase)/decrease in time deposits with original maturity over three months		**(1,773)**	1,773
Decrease in pledged bank balances		**4,472**	12,698
Net cash outflow from investing activities		**(88,556)**	(31,138)

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	35	—	255,824
Share issue expenses	35	—	(33,827)
New bank loans		**470,000**	742,051
Repayment of bank loans		**(742,900)**	(627,709)
Dividends paid to minority shareholders		**(12,671)**	(2,992)
Net cash inflow/(outflow) from financing activities		**(285,571)**	333,347
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(76,860)**	388,301
Cash and cash equivalents at beginning of year		**1,197,073**	813,300
Effect of foreign exchange rate changes, net		**(41,510)**	(4,528)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,078,703**	1,197,073
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	**1,044,213**	1,197,073
Cash and cash equivalents and pledged bank balances for issuing bills payable attributable to the assets of a disposal group held for sale	39	**34,490**	—
		1,078,703	1,197,073

BALANCE SHEET

31 December 2008

	Notes	2008 *RMB'000*	2007 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	14	**723,822**	718,840
Prepaid land premiums	15	**70,150**	1,955
Interests in subsidiaries	17	**845,174**	923,373
Interests in associates	18	**19,356**	20,715
Available-for-sale investments	19	**72,497**	129,101
Deferred tax assets	33	**37,190**	15,754
Total non-current assets		**1,768,189**	1,809,738
CURRENT ASSETS			
Inventories	21	**327,902**	294,699
Trade and bills receivables	22	**691,685**	561,748
Prepayments, deposits and other receivables	24	**186,342**	190,425
Due from subsidiaries	17	**162,280**	114,277
Loans to subsidiaries	17	**196,000**	171,400
Deposits placed with a subsidiary	17	**220,300**	395,269
Pledged bank balances	27	**35,080**	23,773
Cash and cash equivalents	27	**265,910**	397,723
Total current assets		**2,085,499**	2,149,314
CURRENT LIABILITIES			
Trade and bills payables	28	**619,862**	496,691
Other payables and accruals	29	**175,008**	203,814
Interest-bearing bank borrowings	32	**80,000**	280,000
Tax payable		**3,769**	769
Financial guarantee liabilities		**62,858**	25,000
Provisions	30	**15,800**	13,343
Total current liabilities		**957,297**	1,019,617
NET CURRENT ASSETS		**1,128,202**	1,129,697
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,896,391**	2,939,435

BALANCE SHEET *(continued)*

31 December 2008

	Notes	**2008** **RMB'000**	2007 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	32	**144,000**	194,000
Deferred income	34	**96,648**	97,010
Deferred tax liabilities	33	**4,332**	21,570
Provisions	30	**25,208**	17,164
Total non-current liabilities		**270,188**	329,744
Net assets		**2,626,203**	2,609,691
EQUITY			
Issued capital	35	**845,900**	845,900
Reserves	36(b)	**1,738,008**	1,738,414
Proposed final dividend	12	**42,295**	25,377
Total equity		**2,626,203**	2,609,691

Liu Dagong
Director

Yan Linjiao
Director

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 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. Disposal group held for sale is stated at the lower of its carrying amount and fair value less costs to sell as further explained in note 2.4. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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 interpretations and amendments to 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 interpretations and amendments has had no significant effect on these financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement and* HKFRS 7 *Financial Instruments: Disclosures — Reclassification of Financial Assets*
HK(IFRIC)-Int 11	HKFRS 2 — *Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	HKAS 19 — *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement and* HKFRS 7 *Financial Instruments: Disclosures — Reclassification of Financial Assets*

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held to maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

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

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement and* HKFRS 7 *Financial Instruments: Disclosures - Reclassification of Financial Assets (continued)*

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) HK(IFRIC)-Int 11 *HKFRS 2 — Group and Treasury Share Transactions*

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 buys the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses 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 has had no impact on the financial position or results of operations of the Group.

(c) HK(IFRIC)-Int 12 *Service Concession Arrangements*

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) HK(IFRIC)-Int 14 HKAS 19 — *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *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, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

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 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs and* HKAS 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* [1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment - Vesting Conditions and Cancellations* [1]
HKFRS 3 (Revised)	*Business Combinations* [2]
HKFRS 7 Amendments	*Improving Disclosures about Financial Instruments* [1]
HKFRS 8	*Operating Segments* [1]
HK(IFRIC)-Int 9 and HKAS 39 Amendments	*Embedded Derivatives* [5]
HKAS 1 (Revised)	*Presentation of Financial Statements* [2]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation and* HKAS 1 *Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation* [1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items* [2]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate* [1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation* [4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners* [2]
HK(IFRIC)-Int 18	*Transfer of Assets From Customers* [6]

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

Apart from the above, the HKICPA has issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 January 2009

[2] Effective for annual periods beginning on or after 1 July 2009

[3] Effective for annual periods beginning on or after 1 July 2008

[4] Effective for annual periods beginning on or after 1 October 2008

[5] Effective for annual periods ending on or after 30 June 2009

[6] Effective for transfers on or after 1 July 2009

* Improvement to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, 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 and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Associates

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

The Group's 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

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

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, a disposal group classified as held for sale 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

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

(b) the party is an associate;

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment 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 least 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. 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)*

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the assets or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal group and its sale must be highly probable.

Non-current assets and disposal groups (other than deferred tax assets and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

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. These techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. 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, amounts due to the holding companies and fellow subsidiaries, 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 of best estimate of the expenditure required to settle the present obligation at the balance sheet date; 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

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. When funds have been borrowed generally and used for the purpose of obtaining qualifying assets, a capitalistation rate of 7.41% has been applied to the expenditure on the individual assets.

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 based on an evaluation of the terms and conditions of the arrangements, 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 2008 was RMB52,990,000 (2007: 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 bureaus, objective estimates and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision of income taxes to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provisions in the period in which the differences 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 investments

The Group classifies certain investments 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 2008, impairment losses of RMB2,123,000 (2007: RMB2,123,000) have been recognised for available-for-sale investments. The carrying amount of available-for-sale investments at 31 December 2008 was RMB106,959,000 (2007: RMB187,150,000) (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 loans, 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; and

(e) the "others" segment comprises, principally, the manufacture, sale and service of forged steel crankshafts, and design, manufacture and sale of vehicles and related accessories.

Intersegment sales and transfers are transacted according to the terms mutually agreed between the relevant parties.

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 2008 and 2007.

Group	Agricultural machinery		Construction machinery		Financial operations		Diesel engines and fuel jets		Others		Eliminations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	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	**5,572,154**	4,869,263	**1,542,220**	1,519,311	**42,138**	28,780	**777,209**	684,796	**—**	—	**—**	—	**7,933,721**	7,102,150
Intersegment revenue	**579,472**	401,570	**133,429**	23,489	**18,989**	18,027	**419,725**	369,074	**—**	—	**(1,151,615)**	(812,160)	**—**	—
Total	**6,151,626**	5,270,833	**1,675,649**	1,542,800	**61,127**	46,807	**1,196,934**	1,053,870	**—**	—	**(1,151,615)**	(812,160)	**7,933,721**	7,102,150
Segment results	**83,219**	113,110	**(83,177)**	(69,650)	**40,133**	26,802	**91,854**	89,300	**(103)**	(139)	**—**	—	**131,926**	159,423
Interest, dividend and investment income													**14,879**	131,695
Gain on disposal of a subsidiary													**—**	90
Unallocated expenses													**(18,673)**	(9,166)
Finance costs													**(37,643)**	(31,589)
Share of profits and losses of associates	**—**	—	**—**	—	**—**	—	**—**	—	**(82)**	(12,649)	**—**	—	**(82)**	(12,649)
Profit before tax													**90,407**	237,804
Tax													**(9,528)**	(40,024)
Profit for the year													**80,879**	197,780

4. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

Group	Agricultural machinery		Construction machinery		Financial operations		Diesel engines and fuel jets		Others		Eliminations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	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	**3,231,281**	3,107,233	**1,101,957**	1,092,364	**1,179,131**	1,124,090	**826,809**	832,945	**56,874**	41,527	**(1,092,861)**	(1,063,663)	**5,303,191**	5,134,496
Interests in associates	**—**	—	**—**	—	**—**	—	**—**	—	**18,918**	19,800	**—**	—	**18,918**	19,800
Unallocated assets													**213,268**	333,787
Total assets													**5,535,377**	5,488,083
Segment liabilities	**1,362,862**	1,064,973	**955,104**	872,082	**618,399**	597,702	**419,066**	423,329	**102,633**	102,633	**(1,092,861)**	(1,063,663)	**2,365,203**	1,997,056
Unallocated liabilities													**427,737**	738,134
Total liabilities													**2,792,940**	2,735,190
Other segment information:														
Capital expenditure	**158,188**	155,581	**26,470**	24,640	**214**	206	**8,458**	17,043	**—**	—	**—**	—	**193,330**	197,470
Depreciation	**73,146**	57,379	**24,510**	28,774	**598**	398	**26,424**	28,842	**—**	—	**—**	—	**124,678**	115,393
Amortisation of prepaid land premiums	**68**	68	**3,527**	674	**—**	—	**—**	—	**—**	—	**—**	—	**3,595**	742
Provision for warranties	**7,640**	23,457	**4,086**	4,240	**—**	—	**20,705**	17,472	**—**	—	**—**	—	**32,431**	45,169
Impairment of items of property, plant and equipment	**—**	2,500	**—**	12,000	**—**	—	**—**	—	**—**	—	**—**	—	**—**	14,500
Provision for impairment of trade receivables, net	**15,286**	3,459	**10,735**	19,069	**—**	—	**1,948**	1,336	**—**	—	**—**	—	**27,969**	23,864
Provision/(reversal of provision) for impairment of other receivables, net	**496**	(11,998)	**3,938**	(2,860)	**34**	—	**135**	(178)	**—**	—	**—**	—	**4,603**	(15,036)
Provision/(reversal of provision) for obsolete inventories, net	**(758)**	(990)	**(2,653)**	(4,868)	**—**	—	**(1,061)**	2,092	**—**	—	**—**	—	**(4,472)**	(3,766)
Net charge for impairment losses of bills receivable	**—**	—	**—**	—	**1,403**	(1,652)	**—**	—	**—**	—	**—**	—	**1,403**	(1,652)
Net charge for impairment losses of loans receivable	**—**	—	**—**	—	**99**	3,855	**—**	—	**—**	—	**—**	—	**99**	3,855

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	2008 RMB'000	2007 RMB'000
Revenue			
Sale of goods*		**7,891,583**	7,073,369
Interest income from financial operations*	6	**42,138**	28,781
		7,933,721	7,102,150
Other income			
Bank interest income	6	**9,375**	10,458
Profit from sundry sales*		**—**	5,575
Dividend income from listed investments	6	**2,833**	270
Dividend income from unlisted investments	6	**3,000**	3,850
Government grants	34	**4,692**	3,898
Value added tax refund		**2,588**	—
Others		**13,505**	27,348
		35,993	51,399

5. REVENUE, OTHER INCOME AND GAINS *(continued)*

An analysis of revenue, other income and gains is as follows: *(continued)*

	Notes	2008 RMB'000	2007 RMB'000
Gains			
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
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	**4,138**	73,780
		4,138	117,207
		40,131	168,606

* The amount of interest income from financial operations and a certain amount of revenue from sundry sales of RMB28,781,000 and RMB297,935,000, respectively, have been reclassified to "Revenue" on the face of the consolidated income statement for the year end 31 December 2007 to conform with the current year's presentation. Accordingly, a certain amount of costs from sundry sales of RMB279,162,000 has been reclassified to "Cost of sales" on the face of the consolidated income statement for the year ended 31 December 2007 and segment revenue has also been reclassified accordingly.

6. PROFIT BEFORE TAX

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

	Notes	**2008** ***RMB'000***	2007 *RMB'000*
Cost of inventories sold		**7,108,592**	6,255,184
Depreciation	14	**124,678**	115,393
Amortisation of prepaid land premiums	15	**3,595**	742
Impairment of items of property, plant and equipment*	14	**—**	14,500
Employee benefits expense (excluding directors' and supervisors' remuneration — note 8):			
Wages and salaries		**389,503**	388,426
Pension scheme contributions**		**32,071**	59,095
Provision for early retirement benefits	30	**40,957**	12,418
		462,531	459,939
Minimum lease payments under operating leases:			
Land and buildings		**35,428**	19,753
Plant and machinery		**572**	—
		36,000	19,753

6. PROFIT BEFORE TAX *(continued)*

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

	Notes	2008 RMB'000	2007 RMB'000
Research and development costs		**155,869**	138,873
Auditors' remuneration		**6,380**	7,280
Provision for impairment of trade receivables, net*	22	**27,969**	23,864
Provision/(reversal of provision) for impairment of other receivables, net*	24	**4,603**	(15,036)
Provision for warranties	30	**32,431**	45,169
Net charge for impairment losses of loans receivable*	20	**99**	3,855
Net charge for impairment losses of bills discounted receivable*	23	**1,403**	(1,652)
Interest expense on financial operations		**4,924**	5,632
Reversal of provision for obsolete inventories, net		**(4,472)**	(3,766)
Loss on disposal of items of property, plant and equipment, net*		**494**	1,862
Fair value loss/(gain) on listed equity investments at fair value through profit or loss, net*	5	**7,467**	(7,565)
Loss/(gain) on disposal of listed equity investments at fair value through profit or loss, net *	5	**3,944**	(35,772)
Gain on disposal of available-for-sale investments	5	**(4,138)**	(73,780)
Gain on disposal of a subsidiary	5, 37	**—**	(90)
Foreign exchange differences, net*		**3,502**	6,944
Dividend income from unlisted investments	5	**(3,000)**	(3,850)
Dividend income from listed investments	5	**(2,833)**	(270)
Bank interest income	5	**(9,375)**	(10,458)
Interest income from financial operations	5	**(42,138)**	(28,781)
Gross rental income		**(7,821)**	(7,194)

* Theses expenses are included in "Other expenses" on the face of the consolidated income statement.

** At 31 December 2008, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2007: Nil).

7. FINANCE COSTS

	Group	
	2008	2007
	RMB'000	*RMB'000*
Interest on bank and other loans wholly repayable within five years	**49,013**	40,868
Less: Interest capitalised	**(11,370)**	(9,279)
	37,643	31,589

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	
	2008	2007
	RMB'000	*RMB'000*
Fees	**—**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**901**	820
Performance related bonuses	**451**	415
Pension scheme contributions	**270**	245
	1,622	1,480
	1,622	1,480

(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 (2007: Nil).

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

(b) Executive directors and supervisors

2008	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:					
Ms. Dong Jianhong	—	48	23	14	85
Mr. Liu Dagong	—	69	35	21	125
Mr. Liu Wenying	—	69	35	21	125
Mr. Zhao Yanshui	—	69	35	21	125
Mr. Yan Linjiao	—	69	35	21	125
Mr. Li Tengjiao	—	69	35	21	125
Mr. Shao Haichen	—	69	35	21	125
Mr. Zhang Jing	—	21	10	6	37
Mr. Li Youji	—	69	35	21	125
Mr. Liu Shuangcheng	—	69	35	21	125
Mr. Zhao Fei	—	69	35	21	125
	—	690	348	209	1,247
Supervisors:					
Mr. Xu Weilin	—	42	21	12	75
Mr. Shao Jianxin	—	42	21	12	75
Mr. Zhao Shengyao	—	42	21	12	75
Mr. Kong Lingfu	—	42	21	12	75
Mr. Zheng Luyu	—	42	21	12	75
	—	210	105	60	375
	—	900	453	269	1,622

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

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

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

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 (2007: five) non-director and non-supervisor employees, details of whose remuneration are as follows:

	Group	
	2008	2007
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**1,520**	1,533
Performance related bonuses	**—**	—
Pension scheme contributions	**304**	307
	1,824	1,840

None of the highest paid employees (2007: 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 (2007: five) non-director, highest paid employees fell within the band of nil to RMB1,000,000.

10. TAX

	2008	2007
	RMB'000	*RMB'000*
Group:		
Current — PRC corporate income tax		
Charge for the year	**33,642**	35,676
Overprovision in prior years	**(1,757)**	(1,594)
Deferred tax *(note 33)*	**(22,357)**	5,942
Total tax charge for the year	**9,528**	40,024

The PRC corporate income tax for the Company and the majority of its subsidiaries is calculated at rates ranging from 15% to 25% (2007: 15% 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 2008 and 2007.

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 (2007: 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			
	2008		2007	
	RMB'000	**%**	*RMB'000*	%
Profit before tax	**90,407**		237,804	
Tax at the PRC statutory tax rate	**22,602**	**25**	78,475	33
Entities subject to lower income tax rates for specific provinces or enacted by local authority	**(20,015)**	**(22)**	(14,071)	(6)
Effect on deferred tax due to the change in PRC statutory tax rate	**8,630**	**10**	5,638	2
Adjustments in respect of current tax of previous periods	**(1,757)**	**(2)**	(1,594)	(1)
Profits and losses attributable to associates	**20**	**—**	4,174	2
Income not subject to tax	**(42,642)**	**(47)**	(22,207)	(9)
Expenses not deductible for tax	**30,998**	**34**	13,396	6
Tax losses utilised from previous periods	**(7,645)**	**(8)**	(1,409)	(1)
Tax losses not recognised	**33,324**	**37**	23,750	10
Adjustments in respect of current tax for investment loss recognised in prior years	**(13,987)**	**(15)**	—	—
Others*	**—**	**—**	(46,128)	(19)
Tax charge at the Group's effective rate	**9,528**	**11**	40,024	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 2008 was RMB17,000 (2007: Nil). The PRC corporate income tax of the associates is calculated at the rate of 25% (2007: 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 2008 includes a profit of RMB82,054,000 (2007: RMB130,160,000) which has been dealt with in the financial statements of the Company (note 36(b)).

12. DIVIDENDS

	2008	2007
	RMB'000	*RMB'000*
Proposed final — RMB5 cents (2007: RMB3 cents) per ordinary share	**42,295**	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 accounting standards; and (ii) the net profit determined in accordance with the accounting standards of the overseas place where the Company's shares are listed (i.e. Hong Kong Financial Reporting Standards).

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 RMB68,505,000 (2007: RMB181,762,000) and the weighted average of 845,900,000 (2007: 796,346,000) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31 December 2008 and 2007 have not been disclosed as no diluting events existed during either year.

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 2008					
At 1 January 2008:					
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
At 1 January 2008, net of accumulated depreciation and impairment	442,137	557,113	29,737	227,468	1,256,455
Additions	839	27,171	8,049	85,563	121,622
Transfers	28,916	189,397	2,935	(221,248)	—
Disposals	(11,541)	(8,574)	(8,419)	(6,411)	(34,945)
Assets included in a disposal group	(33,256)	(12,521)	(7,156)	(2,284)	(55,217)
Depreciation provided during the year	(27,557)	(93,978)	(3,143)	—	(124,678)
At 31 December 2008, net of accumulated depreciation and impairment	399,538	658,608	22,003	83,088	1,163,237
At 31 December 2008:					
Cost	909,192	1,711,711	44,703	90,663	2,756,269
Accumulated depreciation and impairment	(509,654)	(1,053,103)	(22,700)	(7,575)	(1,593,032)
Net carrying amount	399,538	658,608	22,003	83,088	1,163,237

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

Group *(continued)*

	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 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
Transfers	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)*

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 2008					
At 1 January 2008:					
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
At 1 January 2008 net of accumulated depreciation and impairment	213,388	289,148	10,410	205,894	718,840
Additions	—	10,324	743	76,153	87,220
Transfers	26,837	178,345	1,808	(206,990)	—
Disposals	(1,949)	(2,302)	(2,741)	(4,463)	(11,455)
Depreciation provided during the year	(15,089)	(54,217)	(1,477)	—	(70,783)
At 31 December 2008, net of accumulated depreciation and impairment	223,187	421,298	8,743	70,594	723,822
At 31 December 2008:					
Cost	631,616	1,086,001	16,116	77,776	1,811,509
Accumulated depreciation and impairment	(408,429)	(664,703)	(7,373)	(7,182)	(1,087,687)
Net carrying amount	223,187	421,298	8,743	70,594	723,822

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

Company *(continued)*

	Buildings	Plant, machinery and equipment	Transportation vehicles and equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2007					
At 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
Transfers	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)*

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 42(a) to the financial statements.

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

At 31 December 2008, certain of the Group's and Company's buildings and machinery with an aggregate net carrying value of approximately RMB62,308,000 (2007: RMB62,321,000) and approximately RMB29,178,000 (2007: RMB33,395,000), respectively, together with the land use rights of the Holding, were pledged to secure certain bank loans granted to the Group (note 32(i)).

15. PREPAID LAND PREMIUMS

	Group		**Company**	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Carrying amount at 1 January	**30,374**	20,192	**1,955**	2,023
Additions	**71,708**	10,924	**68,263**	—
Disposals	**(10,925)**	—	**—**	—
Assets included in a disposal group	**(8,404)**	—	**—**	—
Amortisation recognised during the year	**(3,595)**	(742)	**(68)**	(68)
Carrying amount at 31 December	**79,158**	30,374	**70,150**	1,955

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

At 31 December 2008, certain of the Group's land use rights with an aggregate net carrying value of approximately RMB8,404,000 (2007: RMB8,095,000), together with land use rights of a minority shareholder, were pledged to secure bank loans granted to the Group (note 32(iii)).

16. GOODWILL

	Group
	RMB'000
At 1 January 2007	
Cost	52,990
Accumulated impairment	—
Net carrying amount	52,990
Cost at 1 January 2007 and 31 December 2007, net of accumulated impairment	52,990
At 31 December 2007	
Cost	52,990
Accumulated impairment	—
Net carrying amount	52,990
Cost at 1 January 2008 and 31 December 2008, net of accumulated impairment	52,990
At 31 December 2008	
Cost	52,990
Accumulated impairment	—
Net carrying amount	52,990

16. GOODWILL *(continued)*

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the cash-generating unit (the "CGU") of diesel engines and fuel jets, which is a reportable segment, for impairment testing. The recoverable amount of this CGU has been determined based on a 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% (2007: 8%), which is based on the weighted average cost of capital. The growth rate used for the five-year period is based on prudent estimation by management estimated to be 5% (2007: 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 values assigned to key assumptions are consistent with external information sources.

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	
	2008	2007
	RMB'000	*RMB'000*
Unlisted investments, at cost	**813,317**	1,014,668
Financial guarantees granted to subsidiaries	**130,650**	32,000
	943,967	1,046,668
Impairment #	**(98,793)**	(123,295)
	845,174	923,373

An impairment was recognised for certain unlisted investments with a carrying amount of RMB130,579,000 (before deducting the impairment loss) (2007: RMB175,604,000) because these unlisted investments have recorded operating losses. The movements in impairment of interests in subsidiaries are as follows:

	Company	
	2008	2007
	RMB'000	*RMB'000*
At 1 January	**123,295**	57,302
Impairment losses recognised	**56,156**	69,600
Amount written off as disposal	**(80,658)**	(3,607)
At 31 December	**98,793**	123,295

The loans to subsidiaries of RMB196,000,000 (2007: RMB171,400,000) are granted in the form of designated deposits through a subsidiary, which is a financial institution, of the Company, are unsecured, bear interest at rates ranging from 4.86% to 7.47% (2007: 5.58% to 7.29%) per annum, and are repayable within one year.

The amounts due from subsidiaries of RMB162,280,000 (2007: RMB114,277,000) are unsecured and interest-free, and are repayable on demand or within one year.

Deposits in a subsidiary are deposits of RMB220,300,000 (2007: RMB395,269,000) placed by the Company in the subsidiary which is a financial institution. Except for a one-year time deposit of RMB10 million (2007: RMB10 million) placed therein which bears interest at a rate of 4.14% (2007: 2.79%) per annum, all deposits placed therein bear interest at a rate of 0.72% (2007: 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		Principal activities
			Direct	Indirect	
Brilliance China Machinery Holdings Limited ("BCM") 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	RPC/ Mainland China	US$17,900,000	—	95	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	—	95	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
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
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

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) 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
Yituo (Luoyang) Lutong Construction Machinery Company Limited ("YLLT")* # - *(note (iii))* 一拖(洛陽)路通工程機械有限公司	PRC/ Mainland China	RMB52,200,000	—	48.5	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 Direct	Indirect	Principal activities
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	100	—	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
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

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) 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
YTO (Xinjiang) Dongfanghong Machining Co., Ltd.* # 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 these 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.

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

\# Limited liability companies established in the PRC.

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

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

18. INTERESTS IN ASSOCIATES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted shares, at cost	**—**	—	**113,000**	113,800
Share of net assets	**18,918**	19,800	**—**	—
	18,918	19,800	**113,000**	113,800
Provision for impairment	**—**	—	**(93,644)**	(93,085)
	18,918	19,800	**19,356**	20,715

The Group's deposits from associates are disclosed in note 31 to the financial statements.

The Group's trade balances with associates are disclosed in note 22 to the financial statements.

18. INTERESTS IN ASSOCIATES *(continued)*

Particulars of the principal associates at 31 December 2008 are as follows:

Name	Particulars of issued shares held	Place of registration	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Luoyang First Motors Company Limited ("LFMC") * 洛陽福賽特汽車股份有限公司	Ordinary shares 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	Ordinary shares 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.

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:

	2008	2007
	RMB'000	*RMB'000*
Assets	**65,514**	97,178
Liabilities	**7,985**	38,979
Revenue	**58,710**	50,182
Loss	**(702)**	(42,376)

19. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Listed equity investments in Mainland China, at fair value	**48,157**	64,189	**48,157**	36,799
Unlisted equity investments, at cost	**60,925**	56,322	**26,463**	25,663
Provision for impairment	**(2,123)**	(2,123)	**(2,123)**	(2,123)
	58,802	54,199	**24,340**	23,540
Unlisted equity investments, at fair value	**—**	68,762	**—**	68,762
	106,959	187,150	**72,497**	129,101

During the year, the gross loss of the Group's available-for-sale investments recognised directly in equity amounted to RMB57 million (2007: Gross gain of RMB29 million) of which RMB14 million (RMB74 million) 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 in the prior year were 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.

As at 31 December 2008, 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 the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably.

20. LOANS RECEIVABLE

Group

	Notes	Gross amount RMB'000	Provisions RMB'000	Net RMB'000
2008				
Loans to the Holding	(i)	302,800	4,542	298,258
Loans to related companies	(ii)	129,523	5,969	123,554
Loans to customers	(iii)	3,296	1,916	1,380
		435,619	12,427	423,192
Portion classified as current assets		(218,236)	(9,167)	(209,069)
Long term portion		217,383	3,260	214,123
2007				
Loans to the Holding	(i)	252,800	4,803	247,997
Loans to related companies	(ii)	24,503	5,107	19,396
Loans to customers	(iii)	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

Notes:

(i) The loans to the Holding are granted by FTGF, and are unsecured, bear interest at rates ranging from 5.67% to 7.47% (2007: 6.39% to 6.56%) per annum and are repayable within one to five years (2007: one to five years).

(ii) The loans to these companies (fellow subsidiaries and associates of the Holding) are unsecured, bear interest at rates ranging from 5.29% to 9.71% (2007: 6.67% to 9.11%) per annum and are repayable within one to five years (2007: one to five years).

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

20. LOANS RECEIVABLE *(continued)*

The movements in impairment during the year are as follows:

	Group	
	2008	2007
	RMB'000	*RMB'000*
Balance at 1 January	**12,328**	8,473
Net provisions charged to the income statement *(note 6)*	**99**	3,855
Balance at 31 December	**12,427**	12,328

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	
	2008	2007
	RMB'000	*RMB'000*
Repayable:		
Within three months	**14,835**	125,855
Within one year but over three months	**203,401**	79,400
Within five years but over one year	**216,075**	83,266
Over five years	**1,308**	1,576
	435,619	290,097

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

21. INVENTORIES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials	**175,774**	177,470	**52,874**	51,035
Work in progress	**280,156**	268,199	**156,469**	122,682
Finished goods	**357,905**	374,438	**99,954**	104,235
Spare parts and consumables	**28,168**	21,693	**18,605**	16,747
	842,003	841,800	**327,902**	294,699

22. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bills receivable	**316,915**	380,118	**184,892**	232,422
Trade receivables	**657,684**	723,058	**521,639**	342,678
	974,599	1,103,176	**706,531**	575,100
Impairment	**(160,727)**	(177,230)	**(14,846)**	(13,352)
	813,872	925,946	**691,685**	561,748

The Group's trading terms with its customers are mainly on credit, where payment in advance from customers is normally required. The credit periods granted to its customers are from 30 to 90 days. 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	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 90 days	**457,445**	654,962	**430,025**	406,577
91 days to 180 days	**297,133**	162,067	**231,089**	123,713
181 days to 365 days	**39,215**	73,205	**20,684**	20,544
1 to 2 years	**16,807**	32,681	**9,887**	8,441
Over 2 years	**3,272**	3,031	**—**	2,473
	813,872	925,946	**691,685**	561,748

22. TRADE AND BILLS RECEIVABLES *(continued)*

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**177,230**	170,314	**13,352**	13,897
Impairment during the year *(note 6)*	**27,969**	23,864	**3,611**	2,053
Amounts written off as uncollectible	**(10,305)**	(16,642)	**(2,117)**	(2,598)
Assets included in a disposal group	**(34,167)**	—	**—**	—
Disposal of a subsidiary	**—**	(306)	**—**	—
	160,727	177,230	**14,846**	13,352

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB112 million (2007: RMB77 million) with a carrying amount of RMB112 million (2007: RMB77 million). The individually impaired trade receivables relate to customers that were in financial difficulties and the receivables are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade receivables that are not considered to be impaired as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Neither past due nor impaired	**754,578**	817,029	**661,114**	530,290
Less than six months past due	**39,215**	73,205	**20,684**	20,544
Over six months past due	**20,079**	35,712	**9,887**	10,914
	813,872	925,946	**691,685**	561,748

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

22. TRADE AND BILLS RECEIVABLES *(continued)*

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

At 31 December 2008, certain of the Group's and the Company's bills receivable of RMB59,815,000 (2007: RMB57,035,000) and RMB9,000,000 (2007: RMB30,000,000), respectively, were pledged for the issuance of bills payable.

Included in the trade and bills receivables of the Group and the Company are unsecured trade receivables due from the Holding of approximately RMB45,000 (2007: RMB383,000) and RMB45,000 (2007: Nil), respectively. These balances are interest-free and have no fixed terms of repayment.

Included in the trade and bills receivables of the Group and the Company are unsecured trade receivables due from associates aggregating approximately RMB124,000 (2007: RMB4,123,000) and RMB124,000 (2007: RMB1,996,000), respectively. These balances are interest-free and have no fixed terms of repayment.

Included in the trade and bills receivables of the Group and the Company are unsecured trade receivables due from related companies (fellow subsidiaries and associates of the Holding) of approximately RMB37,263,000 (2007: RMB51,943,000) and RMB22,676,000 (2007: RMB35,184,000), respectively. These balances are interest-free and have no fixed terms of repayment.

Included in the trade and bills receivables of the Company are unsecured trade receivables due from subsidiaries of approximately RMB312,713,000 (2007: RMB173,906,000). These balances are interest-free and have no fixed terms of repayment.

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 RMB118,698,000 (2007: RMB53,559,000) attributable to the Holding and approximately RMB1,165,000 (2007: RMB693,000) attributable to associates of the Holding.

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	
	2008	2007
	RMB'000	*RMB'000*
Maturing :		
Within three months	**80,803**	6,619
Within six months but over three months	**50,449**	50,000
	131,252	56,619
Less: Impairment allowance for bills discounted receivable	**(1,969)**	(566)
	129,283	56,053

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

	Group	
	2008	2007
	RMB'000	*RMB'000*
Balance at 1 January	**566**	2,218
Net provisions charged/(credited) to the income statement *(note 6)*	**1,403**	(1,652)
Balance at 31 December	**1,969**	566

Except for an 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	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments, deposits and other debtors	**294,389**	356,105	**178,033**	189,275
Due from the Holding *(note 25)*	**115,921**	109,221	**8,309**	1,150
	410,310	465,326	**186,342**	190,425

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**15,534**	31,011	**11,037**	23,036
Impairment/(reversal of impairment) during the year *(note 6)*	**4,603**	(15,036)	**—**	(11,999)
Amounts written off as uncollectible	**(2,990)**	—	**—**	—
Asset included in a disposal group	**(1,208)**	—	**—**	—
Disposal of a subsidiary	**—**	(441)	**—**	—
At 31 December	**15,939**	15,534	**11,037**	11,037

Included in other debtors of the Group and the Company are other unsecured receivables due from related companies (fellow subsidiaries and associates of the Holding) of approximately RMB48,394,000 (2007: RMB28,564,000) and RMB27,507,000 (2007: RMB22,822,000), respectively. They are interest-free and have no fixed terms of repayment.

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

25. DUE FROM/TO THE HOLDING

Included in the balance due from the Holding is an amount of RMB107 million (2007: RMB107 million), which is secured by the Holding's certain machinery. They are interest-free and are repayable in 2009.

26. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2008	2007
	RMB'000	*RMB'000*
Listed equity investments, at market value:		
Hong Kong	—	11,159
Mainland China	**4,444**	36,206
	4,444	47,365

The above equity investments at 31 December 2008 and 2007 were classified as held for trading.

27. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES

		Group		Company	
		2008	2007	**2008**	2007
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances - *(note (i))*		**657,466**	987,148	**262,910**	346,496
Mandatory reserve deposits with the PBOC - *(note (ii))*		**67,679**	85,952	**—**	—
Time deposits - *(note (iii))*		**399,747**	225,624	**38,080**	75,000
		1,124,892	1,298,724	**300,990**	421,496
Less:Pledged bank balances:					
- For bills payable	28	**(366,357)**	(147,168)	**(35,080)**	(23,773)
- For other banking facilities		**—**	(4,472)	**—**	—
Cash and cash equivalents in the balance sheets		**758,535**	1,147,084	**265,910**	397,723
Less: Non-pledged time deposits - *(note (iii))*		**(13,000)**	(11,227)		
Less: Mandatory reserve deposits with the PBOC - *(note (ii))*		**(67,679)**	(85,952)		
Add: Pledged bank balances for issuing bills payable - *(note (iv))*		**366,357**	147,168		
Cash and cash equivalents in the consolidated cash flow statement		**1,044,213**	1,197,073		

27. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES *(continued)*

Notes:

(i) The balance included FTGF's deposits placed with the PBOC and other banks of approximately RMB229,563,000 (2007: RMB356,437,000) and RMB170,596,000 (2007: RMB186,543,000), respectively.

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

(iii) The maturity profile of the Group's time deposits at the balance sheet date is analysed as follows:

	Group	
	2008	2007
	RMB'000	*RMB'000*
Maturity within three months when acquired	**386,747**	214,397
Maturity within one year but over three months when acquired	**13,000**	11,227
	399,747	225,624

(iv) As the bank balances were pledged for the Group's trading facilities for issuing bills payable, they are included in cash and cash equivalents in the consolidated cash flow statement. The balance of pledged bank balances for issuing bills payable of RMB147,168,000 has been reclassified into "Cash and cash equivalents" on the face of consolidated cash flow statement for the year ended 31 December 2007 to conform with the current's year presentation.

At the balance sheet date, the cash and bank balances of the Group denominated in HK dollars and US dollars amounted to RMB35,395,000 (2007: RMB17,564,000) and RMB7,405,000 (2007: RMB44,422,600), 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.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balance and pledged bank balances are deposited with creditworthy banks with no recent history of default.

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	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 90 days	**1,125,511**	787,267	**508,883**	433,606
91 days to 180 days	**168,224**	209,153	**50,709**	42,919
181 days to 365 days	**70,577**	57,333	**36,269**	7,626
1 to 2 years	**37,901**	49,326	**10,864**	1,827
Over 2 years	**46,785**	40,986	**13,137**	10,713
	1,448,998	1,144,065	**619,862**	496,691

The Group's bills payable amounting to approximately RMB411,070,000 (2007: RMB231,117,000) are secured by the pledge of certain of the Group's deposits amounting to approximately RMB366,357,000 (2007: RMB147,168,000).

Included in the trade and bills payables of the Group and the Company are unsecured trade payables due to the Holding of approximately RMB4,737,000 (2007: RMB12,093,000) and RMB29,000 (2007: Nil), respectively. They are interest-free and have no fixed terms of repayment.

Included in the trade and bills payables of the Group and the Company are unsecured trade payables due to the related companies (fellow subsidiaries and associates of the Holding) of approximately RMB14,367,000 (2007: RMB13,186,000) and RMB1,471,000 (2007: RMB3,180,000), respectively. They are interest-free and have no fixed terms of repayment.

Included in the trade and bills payables of the Company are unsecured trade payables due to subsidiaries of RMB14,699,000 (2007: RMB1,131,000).

29. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2008	2007	**2008**	2007
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Accruals and other liabilities		**390,971**	508,338	**158,959**	198,210
Due to the Holding	25	**49,021**	64,355	**13,281**	5,604
Current portion of deferred income	34	**3,786**	3,278	**2,768**	—
		443,778	575,971	**175,008**	203,814

Included in other liabilities of the Group are amounts due to the minority shareholders of subsidiaries of the Group of approximately RMB10,182,000 (2007: RMB29,190,000). These balances are unsecured and interest-free, and have no fixed terms of repayment.

Included in other liabilities of the Company are amounts due to subsidiaries totaling RMB39,386,000 (2007: RMB41,869,000). These balances are unsecured and interest-free, and have no fixed terms of repayment.

Included in other liabilities of the Group and the Company are amounts due to related companies (fellow subsidiaries and associates of the Holding) of approximately RMB30,271,000 (2007: RMB11,856,000) and RMB25,621,000 (2007: RMB11,276,000), respectively. These balances are unsecured and interest-free, and have no fixed terms of repayment.

30. PROVISIONS

Group	Early retirement benefits	Product warranties	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2008	37,969	20,851	58,820
Provision for the year (note 6)	40,957	32,431	73,388
Amounts utilised during the year	(21,368)	(44,892)	(66,260)
Liabilities directly associated with the assets classified as held for sale	(2,673)	390	(2,283)
At 31 December 2008	54,885	8,780	63,665
Portion classified as current liabilities	(19,304)	(8,780)	(28,084)
Non-current portion	35,581	—	35,581

Company	Early retirement benefits	Product warranties	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2008	26,305	4,202	30,507
Provision for the year	30,840	519	31,359
Amounts utilised during the year	(18,137)	(2,721)	(20,858)
At 31 December 2008	39,008	2,000	41,008
Portion classified as current liabilities	(13,800)	(2,000)	(15,800)
Non-current portion	25,208	—	25,208

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	
	2008	2007
	RMB'000	*RMB'000*
Deposits from the Holding	**70,264**	83,310
Deposits from associates	**367**	469
Deposits from fellow subsidiaries and associates of the Holding	**124,653**	44,903
Deposits from customers	**2,933**	2,549
	198,217	131,231

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	
	2008	2007
	RMB'000	*RMB'000*
Repayable:		
On demand	**196,611**	127,584
Within three months	**—**	143
Within one year but over three months	**1,345**	2,659
Over one year	**261**	845
	198,217	131,231

32. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	Group **2008** ***RMB'000***	Group 2007 *RMB'000*	Company **2008** ***RMB'000***	Company 2007 *RMB'000*
Current						
Bank loans:						
Secured	—	—	**—**	40,000	**—**	—
Unsecured	4.86 % - 9.71%	2009	**97,000**	419,900	**30,000**	280,000
Current portion of long term bank loans - secured	6.75%-7.41%	2009	**70,000**	—	**50,000**	—
			167,000	459,900	**80,000**	280,000
Non-current						
Bank loans:						
Secured	7.41% - 9.29%	2010-2012	**144,000**	194,000	**144,000**	194,000
Unsecured	—	—	**—**	20,000	**—**	—
			144,000	214,000	**144,000**	194,000
			311,000	673,900	**224,000**	474,000

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**167,000**	459,900	**80,000**	280,000
In the second year	**64,000**	70,000	**64,000**	50,000
In the third to fifth years, inclusive	**80,000**	144,000	**80,000**	144,000
	311,000	673,900	**224,000**	474,000

All the above bank loans of the Group and the Company as at 31 December 2008 and 31 December 2007 are denominated in RMB.

Other interest rate information:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Fixed interest rate	**87,000**	486,900	**—**	354,000
Floating interest rate	**224,000**	187,000	**224,000**	120,000
	311,000	673,900	**224,000**	474,000

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

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

(i) certain of the Group's and Company's buildings and machinery with an aggregate net carrying value of approximately RMB62,308,000 (2007: RMB62,321,000) and approximately RMB29,178,000 (2007: RMB33,395,000), respectively (note 14);

(ii) certain of the Holding's land use rights;

(iii) a subsidiary's land use rights with an aggregate net carrying value of approximately RMB8,404,000 (2007: RMB8,095,000) (note 15);

(iv) Land use rights of a minority shareholder;

(v) corporate guarantees provided by the Company and certain subsidiaries of the Group; and

(vi) 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

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

Deferred tax liabilities

	Group	Company
	Revaluation of available-for-sale investments	**Revaluation of available-for-sale investments**
	RMB'000	*RMB'000*
At 1 January 2008	25,225	21,570
Deferred tax credited to the income statement during the year *(note 10)*	(247)	—
Deferred tax credited to equity during the year	(20,646)	(17,238)
Gross deferred tax liabilities at 31 December 2008	4,332	4,332

	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

No deferred tax liabilities have been recognised in respect of the temporary differences associated with undistributed profits of subsidiaries, because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

33. DEFERRED TAX *(continued)*

Deferred tax assets

Group	2008 Loss 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 2008	462	3,751	24,118	28,331
Deferred tax credited to the income statement during the year *(note 10)*	6,960	3,301	11,849	22,110
Gross deferred tax assets at 31 December 2008	7,422	7,052	35,967	50,441
Net deferred tax assets included in the disposal group *(note 39)*				(1,334)
Net deferred tax assets presented on the face of the consolidated balance sheet				49,107

Company	Early retirement benefits	Other deductible temporary differences	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2008	2,327	13,427	15,754
Deferred tax credited to the income statement during the year	3,524	17,912	21,436
Gross deferred tax assets at 31 December 2008	5,851	31,339	37,190

33. DEFERRED TAX *(continued)*

Deferred tax assets *(continued)*

	2007			
Group	**Loss 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	**Loss 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)*

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	**2008**	2007
	RMB'000	*RMB'000*
Tax losses - Mainland China	**334,307**	245,753
Assets provision	**343,048**	50,467
Other deductible temporary differences	**31,583**	15,562
	708,938	311,782

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	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**108,432**	27,680	**97,010**	27,680
Received during the year	**6,064**	84,650	**3,790**	69,330
Recognised as other income and gains during the year	**(4,692)**	(3,898)	**(1,384)**	—
Liabilities directly associated with the assets classified as held for sale *(note 39)*	**(2,244)**	—	**—**	—
At 31 December	**107,560**	108,432	**99,416**	97,010
Current portion included in other payables and accruals *(note 29)*	**(3,786)**	(3,278)	**(2,768)**	—
Non-current portion	**103,774**	105,154	**96,648**	97,010

35. SHARE CAPITAL

	Company	
	2008	2007
	RMB'000	*RMB'000*
Registered, issued and fully paid:		
State-owned legal person shares of RMB1.00 each	**443,910**	443,910
H shares of RMB1.00 each	**401,990**	401,990
	845,900	845,900

On 10 October 2007, the Company entered into a placing agreement with 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 these 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 amounted to RMB233 million (HK$241 million), and the excess of which over the nominal value of the 60,990,000 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 amounted to RMB22 million (HK$23 million), which were fully paid to the 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 66 to 67 of the financial statements.

In accordance with the Company Law of the PRC and the Company's articles of association, the Company is required to appropriate 10% of its annual statutory profit after tax, as determined in accordance with PRC accounting standards and regulations to a statutory surplus reserve (the "SSR"). No allocation to the SSR is required after the balance of the Company's SSR reaches 50% of its registered capital.

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.

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 these subsidiaries are required to be and have been transferred to the reserve fund and enterprise expansion fund, which are restricted as to use.

During the year, 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 RMB13,824,000 (2007: RMB22,125,000), RMB217,000 (2007: RMB500,000) and RMB217,000 (2007: Nil), respectively.

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 (2007: determined based on 1% of realised net profit for the year), 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.

36. RESERVES *(continued)*

(b) Company

	Notes	Share premium account RMB'000	Statutory surplus reserve RMB'000	General surplus reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Retained profits/ (Accumulated losses) RMB'000	Total RMB'000
At 1 January 2008		1,539,938	61,348	48,388	64,711	24,029	1,738,414
Profit for the year	11	—	—	—	—	82,054	82,054
Changes in fair values of available-for-sale investments		—	—	—	(40,165)	—	(40,165)
Proposed final 2008 dividend	12	—	—	—	—	(42,295)	(42,295)
Transfers from/(to) reserves		—	8,253	—	—	(8,253)	—
At 31 December 2008		1,539,938	69,601	48,388	24,546	55,535	1,738,008
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

During the year, the Company appropriations to the SSR amounted to RMB8,253,000 (2007: RMB12,960,000).

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

36. RESERVES *(continued)*

(b) Company *(continued)*

As at 31 December 2008, the Company has retained profits of RMB55,535,000 (2007: 24,029,000) available for distribution by way of cash or cash in kind.

As at 31 December 2008, in accordance with the Company Law of the PRC, an amount of approximately RMB1.54 billion (2007: approximately RMB1.54 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 the manufacture and sale of biochemical products.

		2007
	Notes	*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

37. DISPOSAL OF A SUBSIDIARY *(continued)*

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

	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% (2007: 20% to 21%) 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 these early retirees. The costs of early retirement benefits are recognised in the period when employees opt for early retirement.

39. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

Pursuant to the board of directors' resolution of BCM, a subsidiary of the Company, on 9 December 2008, it has approved the disposal of its 59% of equity interests in ZHAM and ZHHRM each. The considerations were determined with reference to their revaluations performed by independent professional valuer. In December 2008, BCM entered into a letter of intent with a potential purchaser and the details of the transaction were under negotiation that management expects to complete this transaction in year 2009. Further details of the transaction are included in note 48 to the financial statements. As at 31 December 2008, ZHAM and ZHHRM were classified as a disposal group held for sale.

The results of ZHAM and ZHHRM for the year are presented as follows:

	2008
	RMB'000
Revenue	484,047
Expenses	(480,071)
Profit before tax	3,976
Tax	(603)
Profit for the year	3,373

39. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE *(continued)*

The major class of assets and liabilities of ZHAM and ZHHRM classified as held for sale as at 31 December 2008 are as follows:

	Notes	2008 *RMB'000*
Assets		
Property, plant and equipment	14	55,217
Trade and bills receivables		99,034
Prepayment, deposits and other receivables — *(note (i))*		42,802
Inventories		74,931
Prepaid land premiums	15	8,404
Available-for-sale investments		800
Deferred tax assets	33	1,334
Pledged bank balances — *(note (ii))*		11,688
Cash and cash equivalents — *(note (ii))*		22,802
Assets classified as held for sales		317,012
Liabilities		
Trade and bills payables		(88,400)
Other payables and accruals		(22,808)
Tax payable		(528)
Provisions	30	(2,283)
Interest-bearing bank borrowings		(90,000)
Deferred income	34	(2,244)
Liabilities directly associated with assets classified as held for sale		(206,263)
Net assets directly associated with the disposal group		110,749

39. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE *(continued)*

The net cash flows incurred by ZHAM and ZHHRM are presented as follows:

	2008
	RMB'000
Operating activities	19,438
Investing activities	(8,938)
Financing activities	6,256
Net cash inflow	16,756

Notes

(i) Included in the other receivables are amounts of ZHHRM due from its minority shareholder, Jiangsu Huatong Machinery Co., Ltd. ("Huatong") totaling RMB23,388,000 (2007: RMB26,152,000). Pursuant to an agreement between Huatong and the Holding dated 27 March 2007, Huatong has agreed in writing to repay the then balance due to ZHHRM of RMB18,382,000 before 31 December 2007 and has pledged its entire equity interests in ZHHRM to the Holding for securing the balance and the Holding in turn guaranteed that any proceeds from the disposal of this equity interest in Huatong will be solely used to compensate for any loss suffered by ZHHRM should Huatong ultimately default in payment to ZHHRM. In addition, ZHHRM is now negotiating the settlement of the remaining balances of RMB5,006,000 due from Huatong as at the date of these financial statements.

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.

Upon completion of the disposal of the Group's entire 59% of equity interests in ZHHRM, the Group will derecognise the aforesaid other receivables included in other receivables of the Group. Further details of this transaction are included in note 48 (a) to the financial statements.

(ii) The cash and cash equivalents and pledged bank balances for issuing bills payable of an aggregate amount of RMB34,490,000 were included in cash and cash equivalents in the consolidated cash flow statement.

40. CONTINGENT LIABILITIES

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

Group

As at 31 December 2008, ZHHRM, a subsidiary of the Group, had provided a guarantee to a bank for securing an outstanding loan of RMB14 million (31 December 2007: RMB14 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 a 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 in fact ZHHRM's bank balance of RMB0.76 million 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 this guarantee will not have material adverse effect on the Group, and therefore no provision has been made in respect thereof.

Upon completion of the disposal of the Group's entire 59% of equity interests in ZHHRM, the Group will no longer include the aforesaid guarantee provided by ZHHRM. Further details of this transaction are included in note 48 (a) to the financial statements.

Company

As at 31 December 2008, the Company had given corporate guarantees of approximately RMB215 million (2007: RMB210 million) and RMB219 million (2007: RMB193 million) to FTGF and certain banks, respectively, for securing credit facilities granted by FTGF and several banks to certain subsidiaries. The facilities from FTGF and certain banks were utilised in aggregate to the extent of approximately RMB385 million (2007: RMB403 million). The fair values of these 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.

41. 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.

42. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its buildings, plant and machinery (note 14) under operating lease arrangements. Leases for buildings, plant 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 2008, the Group and the Company had total future minimum lease receivables under operating leases with its tenants falling due as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**246**	441	**—**	1,109
In the second to fifth years, inclusive	**385**	193	**—**	—
	631	634	**—**	1,109

(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 2008, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**7,751**	13,545	**5,020**	6,000
In the second to fifth years, inclusive	**20,084**	27,403	**20,000**	20,000
After five years	**167,409**	187,062	**167,398**	172,397
	195,244	228,010	**192,418**	198,397

43. COMMITMENTS

(i) In addition to the operating lease commitments detailed in note 42(b) above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted, but not provided for:				
Purchases of plant and machinery	**29,877**	86,167	**29,253**	79,423
Additional capital contribution into an associate	**—**	4,000	**—**	4,000
	29,877	90,167	**29,253**	83,423
Authorised, but not contracted for:				
Purchases of land use rights	**231,736**	255,900	**231,736**	255,900
Purchases of plant and machinery	**856,243**	895,466	**856,245**	895,466
Additional capital contribution into a subsidiary	**—**	—	**159,075**	159,075
Investment in a joint venture	**120,526**	120,526	**120,526**	120,526
	1,208,505	1,271,892	**1,367,582**	1,430,967
	1,238,382	1,362,059	**1,396,835**	1,514,390

(ii) Pursuant to the board of directors' resolution of Brilliance China Machinery Holdings Limited ("BCM"), a subsidiary of the Company, on 9 December 2008, it has approved the disposal of its 59% of equity interests in ZHAM and ZHHRM each. The considerations were determined with reference to their revaluations performed by independent professional valuer. In December 2008, BCM entered into a letter of intent with a potential purchaser and the details of the transaction were under negotiation. Further details of this transaction are included in note 48(a) to the Financial Statements.

44. 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 and related companies (fellow subsidiaries and associates of the Holding), during the year are summarised as follows:

	Notes	**2008** **RMB'000**	2007 RMB'000
Sale of raw materials, finished goods and components	(i)	**827,904**	585,377
Purchases of raw materials and components	(ii)	**877,406**	704,844
Purchases of utilities	(iii)	**124,438**	109,356
Fees paid for welfare and support services	(iv)	**31,758**	22,848
Purchases of transportation services	(iv)	**32,604**	32,354
Research and development expenses paid	(v)	**51,079**	50,784
Fees paid for the use of land	(vi)	**17,209**	6,326
Fees paid for the use of a trademark	(vii)	**12,003**	13,526
Rentals paid in respect of:			
Buildings	(viii)	**5,655**	1,195
Plant and machinery	(ix)	**247**	92
Rental income received in respect of:			
Buildings	(x)	**5,365**	6,157
Plant and machinery	(xi)	**—**	—
Sale of plant and machinery	(xii)	**—**	10,609
Sale of construction in progress	(xii)	**5,159**	—
Purchases of plant and machinery	(xiii)	**11,746**	2,416
Interest income and discounted bill charges	(xiv)	**36,040**	22,360
Interest paid for customer deposits	(xv)	**819**	1,374
Service charge for a guarantee	(xvi)	**72**	—

44. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

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

	Notes	2008 RMB'000	2007 RMB'000
Sale of raw materials and components	(i)	**6,512**	302
Purchases of raw materials and components	(ii)	**4**	—
Interest income and discounted bill charges	(xiv)	**—**	501
Interest paid for customer deposits	(xv)	**3**	4

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

	Notes	2008 RMB'000	2007 RMB'000
Purchases of raw materials and components	(xvii)	**1,419**	610
Rentals paid in respect of:			
Land	(xvii)	**1,380**	1,380
Buildings	(xvii)	**9**	—
Fee income received from support services	(xvii)	**943**	766
Management fees paid	(xvii)	**280**	200

44. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Notes:

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

(v) Pursuant to relevant agreements, the pricing in respect of routine research and development services is calculated at a rate of 0.2% (2007: 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 RMB17 million (2007: RMB7 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% (2007: 0.15% to 0.2%) of the Company's net annual turnover and 0.4% (2007: 0.4%) of YLDC's net annual turnover.

44. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Notes: (continued)

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

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

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

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

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

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

(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.

44. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Notes: (continued)

(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 1% of the guarantee amount with reference to the relevant service fees 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.

(b) Other transactions with related parties

(i) Designated deposits and designated loans

As at 31 December 2008, the Holding has placed an aggregate amount of RMB46,800,000 with FTGF to provide entrusted loans to the fellow subsidiaries and an associate of the Holding.

As at 31 December 2008, Yituo International Commerce Company Limited, a subsidiary of the Holding, placed a designated deposit of RMB2 million (2007: RMB2 million) with FTGF for lending to a third party.

Since the credit risk is borne by the depositors, the related assets and liabilities of these lending transactions by the depositors are not included in the Group's consolidated financial statements.

(ii) Guarantees provided/assets pledged by related parties to the Group

At 31 December 2008, the Holding provided a guarantee, at nil consideration, to the extent of RMB50 million (2007: RMB260 million) to a bank for securing the banking facilities granted to the Company. As at 31 December 2008, the aforesaid banking facilities were utilised to the extent of RMB50 million (2007: RMB260 million).

Certain of the Group's bank loans are secured by certain of the Holding's land use rights, at nil consideration.

Certain of the Group's bank loans are secured by the land use rights of a minority shareholder, at nil consideration.

44. RELATED PARTY TRANSACTIONS *(continued)*

(c) Outstanding balances with related parties:

(i) Details of the Group's amounts due from/to the Holding, and the Group's loan to and deposits from the Holding as at the balance sheet date are disclosed in notes 20, 22, 23, 24, 28, 29 and 31 to the financial statements.

(ii) Details of the Group's amounts due from and deposits from its associates as at the balance sheet date are included in notes 22 and 31 to the financial statements, respectively.

(iii) Details of the Group's amounts due from/to with its related companies (fellow subsidiaries and associates of the Holding) as at the balance sheet date are disclosed in notes 20, 22, 23, 24, 28, 29 and 31 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, 29 and 39 to the financial statements.

(d) Compensation of key management personnel of the Group

	2008	2007
	RMB'000	*RMB'000*
Short term employee benefits	**1,352**	1,235
Post-employment benefits	**270**	245
Total compensation paid to key management personnel	**1,622**	1,480

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

45. 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

	2008			
	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	—	—	106,959	106,959
Trade and bills receivables	—	813,872	—	813,872
Financial assets included in prepayments, deposits and other receivables	—	292,528	—	292,528
Equity investments at fair value through profit or loss	4,444	—	—	4,444
Pledged bank balances	—	366,357	—	366,357
Loans receivable	—	423,192	—	423,192
Bills discounted receivable	—	129,283	—	129,283
Cash and cash equivalents	—	758,535	—	758,535
	4,444	2,783,767	106,959	2,895,170

Financial liabilities

	2008
	Financial liabilities at amortised cost
	RMB'000
Trade and bills payables	1,448,998
Financial liabilities included in other payables and accruals	243,242
Interest-bearing bank borrowings	311,000
Customer deposits	198,217
	2,201,457

45. 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

	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 bank balances	—	151,640	—	151,640
Loans receivable	—	277,769	—	277,769
Bills discounted receivable	—	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

45. 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

	2008			2007		
	Loans and receivables	Available-for-sale financial assets	Total	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale investments	—	72,497	72,497	—	129,101	129,101
Trade and bills receivables	691,685	—	691,685	561,748	—	561,748
Financial assets included in prepayments, deposits and other receivables	130,307	—	130,307	26,054	—	26,054
Due from subsidiaries	162,280	—	162,280	114,277	—	114,277
Loans to subsidiaries	196,000	—	196,000	171,400	—	171,400
Deposits placed with a subsidiary	220,300	—	220,300	395,269	—	395,269
Pledged bank balances	35,080	—	35,080	23,773	—	23,773
Cash and cash equivalents	265,910	—	265,910	397,723	—	397,723
	1,701,562	72,497	1,774,059	1,690,244	129,101	1,819,345

45. 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 *(continued)*

Financial liabilities

	2008	2007
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	RMB'000	*RMB'000*
Trade and bills payables	**619,862**	496,691
Financial assets included in other payables and accruals	**143,467**	141,446
Interest-bearing bank borrowings	**224,000**	474,000
Financial guarantee liabilities	**62,858**	25,000
	1,050,187	1,137,137

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly comprise bank loans, pledged bank balances 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 or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

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

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.

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 bank balances, 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 these financial guarantee liabilities has been provided for in the Company's balance sheet during the current and prior years.

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

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 to foreign currency risk. As at 31 December 2008, the Group had short term deposits denominated in United States dollars and Hong Kong dollars of approximately RMB7,405,000 (2007: RMB44,422,600) and RMB35,395,000 (2007: RMB17,564,000), 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.

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*
2008		
If Renminbi strengthens against HK$ and US$	(5)	(2,140)
If Renminbi weakens against HK$ and US$	5	2,140
2007		
If Renminbi strengthens against HK$ and US$	(5)	(3,099)
If Renminbi weakens against HK$ and US$	5	3,099

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

Interest rate risk

Interest rate risk is the risk of fluctuation in the fair value of future cash flows of financial instruments which arose from changes in interest rates. Floating interest rate instruments 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 maintains an appropriate fixed and floating interest rate instrument portfolio to manage interest rate risk and makes appropriate arrangements to minimise the exposure mainly by regular review and monitor. The Group does not use derivative financial instruments to hedge its interest rate risk.

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

	Group	
	Increase in basis points	**Decrease/ (increase) in profit before tax**
	%	*RMB'000*
2008	+1	(15)
2007	+1	1,870

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

Interest rate risk *(continued)*

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

	2008	2007
	Rate	Rate
	%	%
Assets		
Cash and cash equivalents	**0.99-1.89**	0.99-1.89
Loans receivable	**5.29-9.71**	6.57-9.11
Liabilities		
Customer deposits	**0.36-4.14**	0.72-3.87
Interest-bearing bank borrowings	**4.86-9.71**	6.39-7.74

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 flows 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.

46. 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 contractual undiscounted payments, was as follows:

Group

2008

	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	177,289	70,953	94,373	—	342,615
Trade and bills payables	1,448,998	—	—	—	1,448,998
Other payables	243,242	—	—	—	243,242
Customer deposits	198,217	—	—	—	198,217
	2,067,746	70,953	94,373	—	2,233,072

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

46. 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 contractual undiscounted payments, was as follows: *(continued)*

Company

2008

	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	84,234	70,953	94,373	—	249,560
Trade and bills payables	619,862	—	—	—	619,862
Other payables	143,467	—	—	—	143,467
Financial guarantee liabilities	62,858	—	—	—	62,858
	910,421	70,953	94,373	—	1,075,747

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
Financial guarantee liabilities	25,000	—	—	—	25,000
	956,135	61,625	156,438	—	1,174,198

47. CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years end 31 December 2008 and 2007.

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 bank balances. Capital includes equity attributable to the equity holders of the parent. The gearing ratios as at the balance sheet dates were as follows:

	Group	
	2008	2007
	RMB'000	*RMB'000*
Interest-bearing bank borrowings	**311,000**	673,900
Trade and bills payables	**1,448,998**	1,144,065
Other payables and accruals	**439,992**	572,693
Customer deposits	**198,217**	131,231
Less: Cash and cash equivalents and pledged bank deposits	**(1,124,892)**	(1,298,724)
Net debt	**1,273,315**	1,223,165
Equity attributable to equity holders of the parent	**2,564,886**	2,575,045
Capital and net debt	**3,838,201**	3,798,210
Gearing ratio	**33%**	32%

48. POST BALANCE SHEET EVENTS

(a) On 26 March 2009, BCM entered into the Equity Transfer Agreements with Singapore Commuter Private Limited ("Singapore Commuter"), an independent third party, to dispose of its entire 59% of equity interests in ZHAM and ZHHRM each at an aggregate consideration of RMB85.1 million, subject to adjustments to Singapore Commuter. Management expects to complete this transaction in year 2009 and this transaction would result in a gain on disposal before tax of approximately RMB20 million.

(b) On 15 April 2009, the Company and China-Africa Development Fund Company Limited ("CADF") entered into the Investment Agreement relating to the formation of a joint venture company in Mainland China. Pursuant to the Investment Agreement, the Company and CADF will contribute cash of RMB137,500,000 and RMB112,500,000, representing 55% and 45% of the equity holdings of the joint venture company, respectively, to the joint venture company as its registered capital within 5 years from the effective date of the Investment Agreement.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 April 2009.