

# Report of the Directors

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31st December, 2000.

## 1. PRINCIPAL ACTIVITIES

The principal activities of the Company comprise the production and sale of agricultural tractors. Details of the principal activities of the subsidiaries are set out in note 13 to the financial statements. There were no changes in the nature of the Group's activities during the year.

## 2. SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to the profit/(loss) from operating activities is as follows:

	Turnover		Contribution to profit/(loss) from operating activities	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
By activity:				
Tractors operation	1,454,681	2,339,667	(161,580)	81,347
Road machinery operation	393,381	392,190	29,758	42,435
Construction machinery operation	134,664	133,280	17,391	19,570
Others <sup>14</sup> ,	588	-	(5,456)	-
	1,997,314	2,865,137	(119,887)	143,352

The Group's turnover and profit/(loss) from operating activities for the years were principally derived in the People's Republic of China (the "PRC").

## 3. RESULTS AND DIVIDENDS

The Group's loss for the year ended 31st December, 2000 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 45, 47 and 50. The Directors do not recommend the payment of a final dividend in respect of the year.

## 4. FINANCIAL SUMMARY

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

## CONSOLIDATED RESULTS

	Year ended 31st December				
	2000 RMB'000	1999 RMB'000	1998 RMB'000	1997 RMB'000	1996 RMB'000
Turnover	1,997,314	2,865,137	2,703,563	3,087,345	3,014,681
Profit/(loss) before tax	(168,056)	138,009	227,444	428,777	279,064
Tax	(13,142)	(44,294)	(75,972)	(141,014)	(97,930)
Profit/(loss) before minority interests	(181,198)	93,715	151,472	287,763	181,134
Minority interests	4,1	(13,594)	(19,033)	(3,916)	-
Net profit/(loss) from ordinary activities attributable to shareholders	(157,053)	80,121	132,439	283,847	181,134

Set out above is the summary of the pro forma results of the Group for the year ended December 1996 and the consolidated results of the Group for each of the four years ended 31st December, 2000. The summary of the results of 1996 has been prepared on the assumption that the reorganisation of the Company has become effective since 1st January, 1996 and was extracted from the accountants' report as set out in Appendix I of the Company's Prospectus, dated 11th June, 1997. Since the Company had no subsidiary in 1996, the results of the Group in 1996 represent the Company's own results.

### Consolidated assets and liabilities

	As at 31st December,				
	2000 RMB'000	1999 RMB'000	1998 RMB'000	1997 RMB'000	1996 RMB'000
Total assets	3,292,787	3,657,209	3,540,244	3,160,491	1,565,322
Total liabilities	(1,000,726)	(1,064,347)	(1,000,473)	(789,048)	(928,976)
Minority interests	(65,930)	(195,409)	(180,831)	(67,126)	-
Total	2,226,131	2,397,453	2,358,940	2,304,317	636,346

Prior to 31st December, 1996, the Company did not have any subsidiary. Accordingly, the Group's net assets statement on that date represents the Company's own net assets statement.

The net assets statement of the Company as at 31st December, 1996 was extracted from the accountants' report as set out in Appendix I of the Company's Prospectus, dated 11th June, 1997.

The net assets statement of the Group as at 31st December 1997, 1998, 1999 and 2000, were extracted from the audited financial statements of the Group.

## **5. FIXED ASSETS**

Details of movements in fixed assets of the Company and the Group for the year ended 31st December, 2000 are set out in note 11 to the financial statements.

## **6. SUBSIDIARIES**

Particulars of the subsidiaries of the Company as at 31st December, 2000 are set out in note 13 to the financial statements.

## **7. ASSOCIATES AND JOINTLY-CONTROLLED ENTITY**

Particulars of the Company's and the Group's interests in its associates and jointly-controlled entity are set out in notes 14 and 15 to the financial statements, respectively.

## **8. BANK LOANS AND OTHER BORROWINGS**

Details of the bank loans and other borrowings of the Company and the Group as at 31st December, 2000 are set out in note 25 to the financial statements.

## **9. CAPITALISATION OF INTEREST**

No interest expense was capitalised for the year ended 31st December, 2000.

## **10. SHARE CAPITAL**

Details of movements in share capital of the Company during the year are set out in note 27 to the financial statements.

During the year of 2000, the Company did not issue any convertible securities, options, warrants or similar rights.

## **11. PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's articles of association and the PRC laws which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

## **12. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

During the year, neither the Company, its holding company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

### **13. RESERVES**

Details of movements in the reserves of the Company and the Group for the year ended 31st December, 2000 are set out in note 28 to the financial statements.

### **14. DISTRIBUTABLE RESERVES**

Details of the distributable reserves of the Company as at 31st December, 2000 are set out in note 28 to the financial statements.

### **15. MAJOR SUPPLIERS AND CUSTOMERS**

For the year ended 31st December, 2000, the five largest customers and suppliers respectively accounted for less than 30% of the total sales and purchases of the Group. Accordingly, information for the major customers and suppliers needed not be further disclosed.

### **16. DIRECTORS AND SUPERVISORS**

The directors and supervisors of the Company during the year were as follows:

#### **Executive directors**

Mr. Fang Gang

(re-appointed on 12th September, 2000)

Mr. Chen Li Wei

(re-appointed on 12th September, 2000)

Mr. Dong Yong An

(re-appointed on 12th September, 2000)

Mr. Liu Wen Ying

(appointed on 12th September, 2000)

Mr. Cui Qi Hong

(appointed on 12th September, 2000)

Mr. Li Teng Jiao

(appointed on 12th September, 2000)

Mr. Zhang Jing

(appointed on 12th September, 2000)

Mr. Wang Wen Ding

(appointed on 12th September, 2000)

Mr. Cao Chun Guo

(appointed on 12th September, 2000)

Mr. Yin Jia Xi

(retired on 12th September, 2000)

Mr. Luo Ting Zan

(retired on 12th September, 2000)

Mr. Wang Hong

(retired on 12th September, 2000)

Mr. Xing De Yu

(retired on 12th September, 2000)

Mr. Zhu Shi Cen

(retired on 12th September, 2000)

Mr. Shang Zhen

(retired on 12th September, 2000)

Mr. Liu Da Gong

(retired on 12th September, 2000)

Mr. Liu A Nan

(retired on 12th September, 2000)

**Independent Non-executive directors**

Mr. Lu Zhong Min

(re-appointed on 12th September, 2000)

Mr. Tao Xiang

(re-appointed on 12th September, 2000)

Mr. Chan Sau Shan, Gary

(re-appointed on 12th September, 2000)

Mr. Chen Zhi

(appointed on 12th September, 2000)

Mr. Hon Fang Ming

(appointed on 12th September, 2000)

**Supervisors**

Mr. Liu A Nan

(appointed on 12th September, 2000)

Mr. Zhao Zhong Hai

(re-appointed on 12th September, 2000)

Mr. Xu Wei Lin

(appointed on 12th September, 2000)

Ms. Wang Ai Ying

(appointed on 12th September, 2000)

Mr. Yang You Liang

(appointed on 12th September, 2000)

Mr. Liu Bing Zhao

(retired on 12th September, 2000)

Mr. Liang Tie Feng

(retired on 12th September, 2000)

Mr. Cheng Kui Rong

(retired on 12th September, 2000)

Ms. Zhu Yuan Na

(retired on 12th September, 2000)

**17. DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES**

Biographical details of the directors of the Company and the senior management of the Group are set out in pages 18 to 22 of this Annual Report.

**18. EMOLUMENTS OF DIRECTORS AND SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS**

	2000 RMB'000	1999 RMB'000
Directors' fee	-	-
Salaries and allowances	431	656
Retirement fund contribution	114	251
Discretionary bonus and performance related bonus	-	328
Total	545	1,235

No remuneration was paid to the non-executive directors during 2000 (1999: Nil).

Analysis of the remuneration of directors and supervisors:

	Number of Directors and Supervisors	
	2000	1999
Below HK\$1,000,000	25	16

During 2000, the five highest paid individuals were the directors of the Company.

## **19. SERVICE CONTRACTS OF THE DIRECTORS AND THE SUPERVISORS**

The service contracts of the directors and the supervisors dated 6th June, 1997 had expired on 7th May, 2000, and new service contracts had been entered during the year.

Except for Mr. Fang Gang, Mr. Chen Li Wei and Mr. Dong Yong ("re-appointed directors"), and Mr. Zhao Zhong Hai ("re-appointed supervisor") who entered into service contracts with the Company on 8th May, 2000. Each of the new executive directors and supervisors has entered into a service contract with the Company on 12th September, 2000. These service contracts are the same in all material respects, details of which are set out as below:

- (i) Each service contract commences from the date of the contract to 7th May, 2003;
- (ii) The total salaries payable to each of the executive directors each year for the three years term will be RMB40,000, RMB44,000 and RMB48,400 respectively. The total annual salaries payable to each of the supervisors each year for the three years term will be RMB24,000, RMB26,400 and RMB29,040 respectively; and
- (iii) Furthermore, each executive director or supervisor is entitled to a bonus upon completion of each full year of service. The bonuses payable to each of the executive directors each year for the three years term will not be more than RMB20,000, RMB22,000 and RMB24,200 respectively. The bonuses payable to each of the supervisors each year for the three years term will not be more than RMB12,000, RMB13,200 and RMB14,520 respectively.

Save as aforesaid, none of the Directors has any service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

## **20. DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS**

During the year, no directors or supervisors had a material interest in any contract of significance to the business of the Group to which the Company, its subsidiaries, its holding company or any of the subsidiaries of the holding company was a party.

## **21. CONTRACTS OF SIGNIFICANCE ENTERED INTO WITH THE CONTROLLING SHAREHOLDER**

On 15th November, 1999, the Company and China First Tractor Group Company Limited ("Holding"), its controlling shareholder, entered into two agreements ("Share Transfer Agreements"), whereby the Company agreed to acquire a 49% interest in each of the registered capital of Yituo (Luoyang) Construction Machinery Co., Ltd. ("YCMC") and Yituo (Luoyang) Building Machinery Co., Ltd. ("YBMC") from Holding, at a cash consideration of RMB61,094,900 and RMB68,257,700, respectively.

In April 2000, the conditions of the Share Transfer Agreements have been satisfied and the equity transfer has been completed.

Other than the Share Transfer Agreements, and the agreement entered into with Holding for the sale and purchase of parts and components, none of the Company or any of its subsidiaries has entered into any contract of significance with the controlling shareholder at any time during the year ended 31st December, 2000.

## **22. SUBSTANTIAL SHAREHOLDERS**

As at 31st December, 2000, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance of Chapter 396 of the Laws of Hong Kong ("SDI Ordinance"):

<b>Shareholders</b>	<b>Class</b>	<b>Number of shares ('000 shares)</b>	<b>Percentage of total shares (%)</b>
China First Tractor Group Company Limited	State-owned legal person shares	450,000	57.32
The HKSCC Nominees Limited	H shares	324,384	41.32

Save as disclosed above, the directors are not aware that any persons held, directly or indirectly, an interest of 10% or more in the share capital of the Company as required to be recorded in the register of issued shares kept by the Company under Section 16(1) of the SDI Ordinance.

## **23. THE SHAREHOLDING OF THE DIRECTORS AND SUPERVISORS**

As at 31st December, 2000, none of the directors or supervisors of the Company held any shares in the Company. None of the directors or supervisors had interest in the share capital in, or debentures of, the Company or any of its associated companies (as defined in the SDI Ordinance). The Company did not grant to any directors, supervisors or their spouses or children under 18 years of age any right to subscribe for securities in, or debenture of, the Company and none of the above persons exercised any of such right.

## 24. CONNECTED TRANSACTIONS

The Group's connected transactions as defined in The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (" Listing Rules") are set out in note 7 to the financial statements. Save for such transactions, prior to the acquisition of 49% equity interest in YCMC by the Company, the Company also has the following connected transactions with YCMC:

	2000 RMB'000	1999 RMB'000
Sales of raw materials and components	20,334	98,842
Purchases of raw materials and components	5,729	31,513

All transactions carried out between the Company and YCMC were intra-group transactions and accordingly, such transactions were eliminated on preparation of the Group's consolidated financial statements.

After reviewing the current year's connected transactions, the independent non-executive Directors of the Company confirm that:

- (i) the transactions were carried out in the normal and usual course of business of the Group;
- (ii) the transactions were carried out 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 similar condition to be compared with) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (iii) the transactions were carried out (a) in accordance with the terms of agreement governing such transactions or (b) if no relevant agreement, on terms no less favourable than terms available to the third parties.

## 25. PENSION SCHEME

Details of the pension scheme are set out in note 30 to the financial statements. The pension fund contribution of the Group included in the profit and loss accounts for the year ended 31st December, 2000 amounted to RMB53,423,000 (1999: RMB54,449,000).

## 26. APPLICATION OF THE PROCEEDS FROM THE H SHARES ISSUE

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



The proceeds from the H Shares issue were used in accordance with the Prospectus as follows:

- \* as to approximately RMB87,900,000 for payment of new issue expenses;
- \* as to approximately RMB274,700,000 for the acquisition of shares in Brilliance China Machinery Holdings Limited ("BCM"), Shanghai Qiangnong (Group) Company Limited and First Tractor Ningbo C.S.I. Tractor & Automobile Corp., Ltd. as well as investment in First Tractor Qingjiang Tractor Company Limited, First Tractor Shenyang Tractor Company Limited, Yituo (Luoyang) Harvester Co., Ltd. and Yituo (Luoyang) Construction Machinery Co., Ltd.;
- \* as to approximately RMB271,630,000 for the acquisition of fixed assets and additional construction in progress (for production lines of 100-120 horse-power wheeled tractors and 100-120 horse-power crawler tractors and large pressure die-casting lines and other technological improvement projects);
- \* as to approximately RMB305,900,000 for the repayment of bank loans and approximately RMB102,000,000 for the repayment of a debt owing to Holding; and
- \* as to the balance for the Company's additional general working capital.

## **27. STAFF QUARTER**

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

## **28. IMPACT ON HOUSING REFORM POLICY**

On 6th September, 2000, the Ministry of Finance of the PRC issued a directive (the "Directive") numbered caiqi [2000] 295 in respect of the accounting policies in relation to the national enterprise housing reform. The Company has examined the relevant issues, and has concluded that it was provided in the Directive that any housing allowances or housing subsidies provided by enterprises should be paid out of the cost (fee) of enterprises, and that enterprises should pay a lump-sum housing subsidy to its existing staff who joined their enterprises before 31st December, 1998. It was further provided that the appropriation plan of the undistributed profit early this year should be adjusted. Since the details of the implementing rules have not been issued by the State, the Directive cannot be implemented currently. Accordingly, the directors are of the opinion that it will not have any material impact on the Group during the period. The directors cannot assess its future impact on the Group for the time being. The remaining provisions contained in the Directive did not have any significant impact on the Group during the period.

## **29. DESIGNATED DEPOSIT AND DEPOSIT DUE**

The Company had no designated deposits or deposits that are placed with non-bank financial institutions in the PRC. All of the Company's cash deposits are placed with

commercial banks in the PRC and are in compliance with the relevant laws and regulations. The Company has not experienced any incidents of not being able to withdraw bank deposit when due.

### **30. POLICIES ON UNIFIED INCOME TAX**

According to a document issued by the People's Government of Luoyang, the Company had been notified of its entitlement to corporate income tax rebate starting from 1999. In 1999, the Company paid the corporate income tax at its entitlement to the rate of 33% and received a 18% tax refund. In January 2000, the Company has received a notice of cancellation of the above tax concession from local government. The corporate income tax of the Company is subject to 33% tax rate leased on its assessable profits.

### **31. LAND USE RIGHTS**

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

### **32. IMPORTANT EVENTS**

1. In November 1999, the Company entered into two agreements ("Share Transfer Agreements") with Holding to acquire a 49% equity interest in each of the registered capital of YCMC and YBMC from Holding at a consideration of RMB61,094,900 and RMB68,257,700 respectively. The Foreign Economic and Trade Commission of Henan province approved the above transfer of equity interest on 7th April, 2000. Since then, the Company actually owns a 94.951% equity interest in both YCMC and YBMC.
2. On 19th January, 2000, the Company contributed RMB27 million to jointly set up Yituo (Luoyang) Harvester Co., Ltd. ("YLHC") with an independent third party. The Company has a 90% equity interest therein. YLHC is mainly engaged in the development, production and sale of harvesters, drying machines and related agricultural machinery products.
3. On 16th May, 2000, the Company entered into an equity joint venture agreement with an independent third party, Guizhou Hong Yui (Holding) Food Co., Ltd. to set up a limited liability company, Guizhou Zhenning Biological Industrial Company Limited ("GZBI"). GZBI is principally engaged in the production of biological products. Pursuant to the aforesaid agreement, the Company and the aforesaid party, agreed to make capital contribution of RMB11.2 million and RMB4.8 million, respectively, to GZBI, representing 70% and 30% of the registered capital of GZBI. The registered capital of GZBI has been fully paid-up in June 2000.
4. On 21st June, 2000, YLHC entered into an agreement with an independent third party, Zhenjiang Thresher Manufacturing Factory to establish a new limited liability

company, namely, Yituo (Zhenjiang) Harvester Co., Ltd. ("YZHC"), under the laws of the PRC. Pursuant to the agreement, YLHC and the aforesaid party agreed to make capital contribution of RMB7.79 million and RMB4.19 million, respectively to YZHC, which represented 65% and 35% of the registered capital of YZHC, respectively. YZHC is engaged in the production of harvester and has commenced its operation in the second half year of 2000.

5. In April 2000, the Company entered into an agreement with Shanghai Resources (Group) Holding Company ("Shanghai Resources") pursuant to which the Company agreed to dispose of its equity interest of 30% in SQGC, an associate of the Company, for a cash consideration of approximately RMB36 million. However, Shanghai Resources failed to pay the purchase consideration to the Company upon the agreement's completion date, and in order to protect the Company's interest in SQGC, the directors cancelled the agreement with Shanghai Resources in December, 2000.

### **33. CODE OF BEST PRACTICE**

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 31st December, 2000.

### **34. AUDITORS**

The Group's financial statements prepared in accordance with the Hong Kong accounting standards have been audited by Ernst & Young. Ernst & Young retired and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

### **35. MATERIAL LITIGATION**

During the period of this report, none of the Company, Directors, Supervisors nor senior officers of the Company had engaged in any material litigation or arbitration.

### **36. AUDIT COMMITTEE**

The Company formed its Audit Committee on 25th April, 2001 in accordance with the Listing Rules to review and supervise the financial reporting procedure and internal supervision and control of the Group. The Audit Committee had held one meeting and reviewed the accounts of the Company for the year end 31st December, 2000.

By order of the Board of Directors

**Fang Gang**  
*Chairman*

Luoyang, the PRC  
25th April, 2001