

Notes to Financial Statements

31st December, 2000

(Prepared in accordance with Hong Kong accounting standard)

1. CORPORATE INFORMATION

During the year the Group was involved in the following principal activities:

- * manufacture and sale of agricultural tractors and related parts and components
- * manufacture and sale of construction machinery
- * manufacture and sale of road machinery
- * manufacture and sale of agricultural harvesting machinery

In the opinion of the directors, the ultimate holding company of the Company is China First Tractor Group Company Limited ("Holding"), which was established in the People's Republic of China (the "PRC").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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 the periodic remeasurement of certain fixed assets, debt and equity investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant inter company transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values other than temporary in nature deemed necessary by the directors.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are stated at cost less any provisions for diminutions in values other than temporary in nature deemed necessary by the directors.

Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Joint venture arrangements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly-controlled entities.

The Group's share of post acquisition results and reserves of its jointly-controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting.

The results of the jointly-controlled entity are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interest in its jointly-controlled entity is treated as a long term investment and is stated at cost less any provision for diminution in value, other than those considered to be temporary in nature, deemed necessary by the directors.

Goodwill or capital reserve

Goodwill or capital reserve arising on consolidation of subsidiaries and on acquisition of associates and a jointly-controlled entity represents the excess or shortfall of the purchase consideration paid over the fair values ascribed to the net underlying assets acquired at the date of acquisition. Goodwill is eliminated against reserves and capital reserve amount is credited directly to reserves, in the year of acquisition.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation.

The cost of an asset 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 the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 the fixed asset, the expenditure is capitalised as an additional cost of that fixed asset.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Depreciation of fixed assets is calculated on a straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The estimated useful lives of fixed assets are as follows:

Buildings	8-30 years
Plant, machinery and equipment	6-16 years
Transportation vehicles and equipment	6-12 years

Where, in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Recoverable amounts are not determined using discounted cash flows. Reductions of recoverable amounts are charged to the profit and loss account, except to the extent that they reverse previous revaluation surpluses in respect of the same items, when they are charged to the revaluation reserve.

Construction in progress

Construction in progress represents factory buildings, plant and machinery and other fixed assets under construction and is stated at cost and is not depreciated. Cost comprises direct costs of construction as well as interest charges on related borrowed funds during the periods of construction, installation and testing. Capitalisation of interest charges and exchange difference ceases when the fixed assets are

substantially ready for their intended use. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis.

Unlisted securities are stated at their estimated fair values on an individual basis. These are determined by the directors having regard to, inter alia, the comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

The gains or losses arising from changes in the fair values of a security are dealt with as movements in the long term investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

Short term investments

Short term investments are investments in debt and equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

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 production 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 provisions for obsolescence.

Foreign currencies

The Group's financial records are maintained and the financial statements are stated in Renminbi ("RMB").

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates as quoted by the People's Bank of China. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange prevailing at the balance sheet date as quoted by the People's Bank of China. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of the overseas subsidiary is translated to Renminbi at the applicable rates of exchange ruling at the balance sheet date. All material translation differences arising on consolidation are dealt with through the exchange fluctuation reserve.

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; and
- (b) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs 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.

Provision for warranty claims

Provision for warranty claims is calculated based on the unit rate charged by repair centres and the estimated number of units of tractors and components already sold which may require repairs and maintenance.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Retirement benefits scheme

Contributions to defined contribution retirement scheme are charged to the profit and loss account as incurred.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

3. TURNOVER AND REVENUE

Turnover represents the invoiced value of goods sold, net of discounts and returns, and excludes sales taxes and intra-group transactions.

An analysis of turnover and revenue is as follows:

	2000	1999
	RMB'000	RMB'000
Turnover - sale of goods	1,997,314	2,865,137
Interest income	27,927	35,643
Income from sundry sales	9,121	11,904
Subsidies from the local Finance Bureau	-	6,000
Revenue	2,034,362	2,918,684

4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	2000	1999
	RMB'000	RMB'000
Depreciation of fixed assets	97,929	93,507
Provisions for impairments of construction in progress	10,135	-
Provisions for impairments of fixed assets	29,735	-
Staff costs (exclusive of directors' and supervisors' emoluments):		
Wages and salaries	239,365	229,013
Pension contributions	53,423	54,449
Operating lease rentals:		
Land and buildings	13,264	13,438
Plant and machinery	5,245	7,640
Research and development expenses	6,459	7,396
Directors' and supervisors' remuneration:		
Fees	-	-
Other emoluments	545	1,235
Auditors' remuneration	2,700	3,300
Loss on disposal of fixed assets	1,874	1,184
Exchange losses, net	848	578
Gains on disposal of listed investments	(3,000)	-
Interest income	(27,927)	(35,643)

5. FINANCE COSTS

	Group	
	2000	1999
	RMB'000	RMB'000
Interest on bank and other loans		
wholly repayable within five years	19,627	12,635
Less: Interest capitalised	-	-
Finance costs, net	19,627	12,635

6. TAX

	2000	1999
	RMB'000	RMB'000
The Company and subsidiaries:		
PRC income tax provided for the year	15,412	45,711
Deferred tax (note 26)	(2,468)	(2,468)
	12,944	43,243
Share of tax attributable to:		
Associates	-	196
Jointly-controlled entity	198	855
Tax charge for the year	13,142	44,294

No provision for Hong Kong profits tax has been made as the Group had no assessable profits earned in or derived from Hong Kong.

The PRC income tax of the Company, Luoyang Changlun Agricultural Machinery Company Limited, First Tractor Qingjiang Tractor Company Limited ("FTQT"), Yituo (Luoyang) Harvester Co., Ltd., Yituo (Zhenjiang) Harvester Co., Ltd., and Guizhou Zhenning Biological Industrial Co., Ltd. is calculated based on 33% of the respective company's assessable profits determined in accordance with the relevant PRC laws and regulations.

Zhenjiang Huachen Huatong Road Machinery Co., Ltd. ("ZHHRM") and Zhenjiang Huatong Aran Machinery Co., Ltd. ("ZHAM") are subject to the Income Tax Law of the PRC for Enterprises with Foreign Investment Enterprises and Foreign Enterprises, and are entitled to an income tax holiday for two years commencing with their respective first profit-making year and a 50% reduction in income tax for the following three years. The year 2000 is the income tax holiday period for ZHHRM and hence no income tax has been charged to ZHHRM for the year ended 31 December 2000. The income tax holiday of ZHAM lapsed on 31 December 1998 and ZHAM's 2000 PRC income tax is calculated at 12% (after the deduction of 50% tax relief) on its assessable profits of 2000 (1999: 12% after the deduction of 50% tax relief).

Yituo (Luoyang) Construction Machinery Co., Ltd. ("YCMC") and Yituo (Luoyang) Building Machinery Co., Ltd. ("YBMC") have been accredited as "Technologically-advanced Enterprises" and are entitled to income tax reduction for a period of three years starting from 1 January 1999. The PRC income tax of the aforesaid companies is calculated at 15% (after taking into account the income tax reduction) on their respective assessable profits.

First Tractor Shenyang Tractor Company Limited ("FTST"), a limited liability company located in the technological economic zone in Shenyang, is entitled to an income tax holiday for its first two profit-making years which commenced in 1998 and a 50% reduction in income tax for the following three years. As FTST incurred a loss for the year ended 31 December 2000, no PRC income tax has been charged for the year ended 31 December 2000.

Profits tax of the subsidiary operating outside the PRC is subject to the rate applicable in its jurisdiction.

The PRC income tax of the associates and jointly-controlled entity is calculated at 0% to 33% on the respective company's assessable profits determined in accordance with the relevant PRC laws and regulations.

There was no material unprovided deferred tax during the year or at the balance sheet date (1999: Nil).

7. RELATED PARTY TRANSACTIONS

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

	Notes	2000 RMB'000	1999 RMB'000
Sales of raw materials and components	(i)	125,631	191,971
Purchases of raw materials and components	(i)	191,535	314,187
Purchases of utilities	(ii)	56,510	68,944
Fees paid for welfare and support services	(iii)	44,677	46,055
Purchases of transportation services	(iii)	9,188	9,472
Research and development expenses paid	(iv)	2,600	5,392
Fees paid for the use of land	(v)	5,000	5,000
Fees paid for the use of trademark	(vi)	2,600	4,095
Rentals paid in respect of:			
Buildings	(vii)	1,763	1,738
Plant and machinery	(vii)	5,000	7,640

- (b) The significant transactions carried out between FTQT and its minority shareholder during the year are summarised as follows:

	Notes	2000 RMB'000	1999 RMB'000
Sales of raw materials and components	(i)	4,854	13,996
Purchases of raw materials and components	(i)	18,417	28,107
Sales of utilities	(ii)	1,542	2,466

- (i) Pursuant to relevant agreements, the pricing in respect of raw materials and components is determined by reference to the State price (i.e. mandatory prices set in accordance with relevant PRC regulations, where applicable) or if there is no applicable State price for any such raw material or component, the market price or the agreed price which is not exceeding the price charged in the immediate preceding year increased by a percentage equal to certain PRC consumer price index, whichever is lower.
- (ii) Pursuant to relevant agreements, the pricing in respect of utilities is determined by reference to the State price (i.e. mandatory prices set in accordance with relevant PRC regulations, where applicable) or if there is no applicable State price for any such service, the market price or the agreed price which is not exceeding the price charged in the immediate preceding year increased by a percentage equal to certain PRC consumer price index, whichever is lower.
- (iii) Pursuant to relevant agreements, the pricing in respect of each of the welfare and supporting services and transportation services is determined by reference to the State price (i.e. mandatory prices set in accordance with relevant PRC regulations, where applicable) or if there is no applicable State price for any such services, the market price or the agreed price which is not exceeding the price charged in the immediate preceding year increased by a percentage equal to certain PRC consumer price index, whichever is lower.
- (iv) Pursuant to relevant agreements, the pricing in respect of routine research and development services is calculated at 0.2% of the Company's net annual turnover.
- (v) Pursuant to relevant agreements, the annual rental for the use of land is RMB5 million subject to a further land rental adjustment announced by the relevant State land administration authorities.
- (vi) Pursuant to relevant agreements, the pricing for the use of the trademark is charged at the rate of 0.2% of the Company's net annual turnover.
- (vii) Pursuant to relevant agreements, the rental of buildings and plant and machinery is charged with reference to the depreciation of relevant assets.

(c) Further details of the balances with related parties are set out in notes 20 and 24 to the financial statements.

8. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is RMB147,310,000 (1999: profit of RMB51,596,000).

9. DIVIDEND

	2000 RMB'000	1999 RMB'000
Proposed final dividend - Nil (1999: RMB0.053) per share (note 23)	-	41,703
	-	41,703

10. EARNINGS/(LOSS) PER SHARE

The calculation of earnings/(loss) per share is based on the net loss from ordinary activities attributable to shareholders for the year of RMB157,053,000 (1999: profit of RMB80,121,000) and the weighted average of 785,000,000 shares (1999: 785,000,000 shares) in issue during the year.

No diluted earnings/(loss) per share is presented as the Company does not have any dilutive potential ordinary shares.

11. FIXED ASSETS

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
Cost:				
At beginning of year	781,628	1,210,701	65,424	2,057,753
Arising on acquisition of subsidiaries	3,627	3,739	5,958	13,324
Additions	32	6,638	8,518	15,188
Transferred from construction in progress (note 12)	3,950	12,728	4,166	20,844
Disposals	(1,046)	(7,532)	(8,887)	(17,465)
Impairment provision	(39,612)	(92,186)	-	(131,798)
At 31 December 2000	748,579	1,134,088	75,179	1,957,846

Accumulated depreciation:				
At beginning of year	377,338	693,766	27,945	1,099,049
Arising on acquisition of subsidiaries	1,073	106	3,555	4,734
Provided during the year	27,079	61,909	8,941	97,929
Disposals	(869)	(6,643)	(4,672)	(12,184)
Impairment provision	(34,130)	(67,933)	-	(102,063)
At 31 December 2000	370,491	681,205	35,769	1,087,465
Net book value:				
At 31 December 2000	378,088	452,883	39,410	870,381
At 31 December 1999	404,290	516,935	37,479	958,704

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
Cost:				
At beginning of year	599,767	1,025,768	20,909	1,646,444
Additions	-	438	185	623
Transferred from construction in progress (note 12)	3,754	8,793	3,019	15,566
Disposals	(151)	(7,333)	(2,176)	(9,660)
At 31 December 2000	603,370	1,027,666	21,937	1,652,973
Accumulated depreciation:				
At beginning of year	302,425	604,624	7,866	914,915
Provided during the year	22,512	52,908	2,115	77,535
Disposals	(122)	(6,547)	(584)	(7,253)
At 31 December 2000	324,815	650,985	9,397	985,197
Net book value:				
At 31 December 2000	278,555	376,681	12,540	667,776
At 31 December 1999	297,342	421,144	13,043	731,529

All of the Group's buildings are situated in the PRC. The land on which the Group's buildings are erected is leased for a period of 50 years.

At 31 December 2000, certain of the Group's buildings and machinery with a net book value of approximately RMB31,400,000 (1999: RMB113,000,000) were pledged to secure short term bank loans granted to the Group (note 25(a)).

12. CONSTRUCTION IN PROGRESS

Group	2000	1999
	RMB'000	RMB'000
At beginning of year	62,669	159,324
Arising on acquisition of subsidiaries	-	68
Additions	31,778	93,077
Transferred to fixed assets (note 11)	(20,844)	(189,800)
Impairment provision	(10,135)	-
At 31 December	63,468	62,669

Company	2000	1999
	RMB'000	RMB'000
At beginning of year	57,167	128,155
Additions	23,337	86,335
Transferred to fixed assets (note 11)	(15,566)	(157,323)
Impairment provision	(8,864)	-
At 31 December	56,074	57,167

13. INTERESTS IN SUBSIDIARIES

Company	2000	1999
	Unlisted investments, at cost	239,551
Due from subsidiaries	569,164	633,243
Due to subsidiaries	(41,003)	(19,192)
Provisions for permanent diminutions in values	767,712	686,050
	(59,000)	-
	708,712	686,050

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The table below lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of 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 excess length.

Particulars of the Company's principal subsidiaries are as follows:

Name	Date of establishment	Place of establishment and operations	Registered and paid-up capital the Company	Equity interest attributable to of entity activities		Nature	Principal
				direct	indirect		
Brilliance China Machinery Holdings Limited ("BCM")	17 March 1993	Bermuda	US\$12,000	90.1%	-	Limited liability company	Investment holding
Yituo (Luoyang) Construction Machinery Co., Ltd.	28 December 1993	the PRC	US\$9,980,000	49%	46%	Sino-foreign equity joint venture enterprise	Manufacture and sale of tractors and construction machinery
Yituo (Luoyang) Building Machinery Co., Ltd.	29 December 1993	the PRC	US\$9,980,000	49%	46%	Sino-foreign equity joint venture enterprise	Manufacture and sale of road rollers and road construction machinery

Name	Date of establishment	Place of establishment and operations	Registered and paid-up capital the Company	Equity interest attributable to of entity activities		Nature	Principal
				direct	indirect		
First Tractor Qingjiang Tractor Company Limited *	16 January 1998	the PRC	RMB80,000,000	51%	-	Limited liability company	Manufacture and sale of tractors and related parts and components
Luoyang Changlun Agricultural Machinery Company Limited *	28 May 1998	the PRC	RMB500,000	99%	-	Limited liability company	Trading of tractors
First Tractor Shenyang Tractor Company Limited *	20 April 1998	the PRC	RMB27,000,000	60%	-	Limited liability company	Manufacture and sale of tractors
Zhenjiang Huatong Aran Machinery Company Limited	28 November 1995	the PRC	US\$1,000,000	-	53.2%	Sino-foreign equity joint venture enterprise	Manufacture and sale of road construction machinery

Name	Date of establishment	Place of establishment and operations	Registered and paid-up capital the Company	Equity interest attributable to of entity activities		Nature	Principal
				direct	indirect		
Zhenjiang Huachen Huatong Road Machinery Company Limited	8 April 1999	the PRC	US\$4,080,000	-	53.2%	Sino-foreign equity joint venture enterprise	Manufacture and sale of road construction machinery
Yituo (Luoyang) Harvester Co., Ltd.*	19 January 2000	the PRC	RMB30,000,000	90%	-	Limited liability company	Manufacture and sale of agricultural harvesting machinery
Yituo (Zhenjiang) Harvester Co., Ltd.*	28 June 2000	the PRC	RMB11,984,400	-	58.5%	Limited liability company	Manufacture and sale of agricultural harvesting machinery
Guizhou Zhenning Biological Industrial Co., Ltd.*	13 June 2000	the PRC	RMB16,000,000	70%	-	Limited liability company	Manufacture and sale of biochemical products

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

In November 1999, the Company entered into two conditional agreements with Holding pursuant to which the Company agreed to acquire a 49% equity interest in both YCMC and YBMC from Holding at a cash consideration of approximately RMB61 million and RMB68 million, respectively. In April 2000, the conditions of the agreements were satisfied and the equity transfer was then completed. The Company has effectively held 94.951% in both YCMC and YBMC since then.

14. INTERESTS IN ASSOCIATES

	Group		Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Unlisted investments, at cost	-	-	42,000	42,000
Share of net assets	14,788	44,191	-	-
	14,788	44,191	42,000	42,000
Provision for permanent diminutions in value	-	-	(27,000)	-
	14,788	44,191	15,000	42,000

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

Particulars of the principal associates are as follows:

Name	Place of registration	Percentage of equity attributable to the Company		Principal activities
		directly	indirectly	
Shanghai Qiangnong (Group) Company Limited ("SQGC")*	the PRC	39.6%	-	Trading of agricultural machinery
Shanghai Qiangnong Group Agricultural Machinery Co., Ltd.*	the PRC	-	25.74%	Trading of agricultural machinery and electrical equipment

Name	Date of establishment and operations	Place of establishment and operations	Registered and paid-up capital the Company	Equity interest attributable to of entity activities		Nature	Principal
				direct	indirect		
Shanghai Agricultural Resources Trading Centre Co., Ltd.*		the PRC		-	25.74%		Trading of agricultural machinery and electrical equipment
Shanghai Shennong Automobiles Services Co., Ltd.*		the PRC		-	31.68%		Provision of transportation services
Shanghai Shangnong Property Development Co., Ltd.*		the PRC		-	39.6%		Property development

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

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 pass the purchase consideration to the Company upon the agreement completion date, and in order to protect the Company's interest in SQGC, the directors cancelled the agreement with Shanghai Resources in December 2000.

15. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group		Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Unlisted investment, at cost	-	-	25,000	25,000
Share of net assets	28,688	28,025	-	-
	28,688	28,025	25,000	25,000

Particulars of the jointly-controlled entity, which is unlisted, at the balance sheet date are as follows:

Name	Business structure	Place of registration	Percentage of equity and profit attributable to the Group		Principal activities
First Tractor Ningbo C.S.I. Tractor & Automobile Corp., Ltd.	Corporate	the PRC	40%	40%	Manufacture and sale of tractors

The above investment in the jointly-controlled entity is directly held by the Company.

16. INVESTMENTS

	Group		Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Long term investments				
Unlisted equity investments, at fair value	48,608	27,306	25,303	4,000
Short term investments				
Listed government bonds, at market value	100,000	50,000	100,000	50,000
Listed equity securities, at market value	9,640	2,136	-	-
	109,640	52,136	100,000	50,000

The market values of the Group's and the Company's short term investments at the date of approval of these financial statements were approximately RMB129 million and RMB103 million, respectively.

17. INVENTORIES

	Group		Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Raw materials	112,880	124,891	65,648	75,740
Work in progress	156,863	188,733	71,420	98,841
Finished goods	269,522	252,142	67,921	74,441
Spare parts and consumables	59,773	64,290	53,294	58,262
	599,038	630,056	258,283	307,284

At 31 December 2000, the carrying amount of inventories of the Company and the Group carried at net realisable value included in the above was RMB9 million (1999: RMB4 million).

18. TRADE AND BILLS RECEIVABLES

The Group's average credit period to its trade customers is between 30 to 90 days. The aged analysis of trade and bills receivables, net of provision, as at 31 December 2000 is as follows:

	Group		Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Current to 90 days	261,766	229,741	32,368	49,546
91 days to 180 days	103,326	128,851	11,038	12,168
181 days to 365 days	58,690	107,607	21,191	15,391
One to two years	61,121	57,654	14,134	5,221
Over two years	2,516	10,328	2,021	4,374
	487,419	534,181	80,752	86,700

19. OTHER RECEIVABLES

	Notes	Group		Company	
		2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Prepayments, deposits and other debtors		92,576	87,198	44,541	46,060
Prepaid income tax		-	-	-	6,457
Due from related companies	20	10,896	5,936	3,315	3,315
Due from Holding	24	-	106,378	-	106,078
		103,472	199,512	47,856	161,910

20. DUE FROM/(TO) RELATED COMPANIES

The amounts due from/(to) related companies are unsecured, interest-free and have no fixed terms of repayment.

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Cash and bank balances	333,261	432,660	173,301	112,740
Time deposits	634,024	687,769	473,871	643,261
	967,285	1,120,429	647,172	756,001

22. TRADE AND BILLS PAYABLES

The aged analysis of trade and bills payables, as at 31 December 2000, is as follows:

	Group		Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Current to 90 days	263,210	283,809	154,902	188,437
91 days to 180 days	46,563	93,679	34,477	79,223
181 days to 365 days	47,686	56,776	31,670	47,132
One to two years	24,950	24,864	14,168	9,500
Over two years	20,916	14,198	11,469	10,306
	403,325	473,326	246,686	334,598

23. OTHER PAYABLES AND ACCRUALS

	Notes	Group		Company	
		2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Accruals and other liabilities		239,502	222,334	128,027	113,294
Due to Holding	24	119,773	106,778	10,892	-
Due to related companies	20	4,588	1,874	-	-
Proposed final dividend	9	-	41,703	-	41,703
		363,863	372,689	138,919	154,997

24. DUE FROM/(TO) HOLDING

Except for a balance of approximately RMB106 million due to Holding which bears interest rates ranging from 5.58% to 6.65% per annum (1999: interest-free), all other balances due from/(to) Holding are interest-free. The balances with Holding are unsecured and have no fixed terms of repayment.

25. INTEREST-BEARING BANK AND OTHER LOANS

	Group		Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Bank loans:				
Secured	25,650	65,650	-	-
Unsecured	143,220	132,320	25,000	50,000
	168,870	197,970	25,000	50,000
Unsecured other loans	49,959	-	-	-
	218,829	197,970	25,000	50,000
Bank loans repayable:				
Within one year	144,080	197,970	20,000	50,000
In the second year	24,790	-	5,000	-
	168,870	197,970	25,000	50,000
Other loans repayable:				
Within one year	49,959	-	-	-
	218,829	197,970	25,000	50,000
Portion classified as current liabilities	(194,039)	(197,970)	(20,000)	(50,000)
Long term portion	24,790	-	5,000	-

(a) At 31 December 2000, certain of the Group's bank loans of RMB25,650,000 (1999: RMB65,650,000) were secured by the Group's certain buildings and machinery with an aggregate net book value of approximately RMB31,400,000 (1999: RMB113,000,000).

(b) Other loans are unsecured and bear interest rates ranging from 6.44% to 9.72% per annum.

26. DEFERRED TAX

	Group and Company	
	2000 RMB'000	1999 RMB'000
At beginning of year	6,170	8,638
Credit for the year (note 6)	(2,468)	(2,468)
At 31 December	3,702	6,170

The deferred tax of the Group and the Company is made in respect of the difference in income recognition for accounting and tax purposes regarding interest income arising from the over-subscription monies of the H shares proceeds.

27. SHARE CAPITAL

		Company	
		2000	1999
		RMB'000	RMB'000
Registered, issued and fully paid:			
450,000,000	State-owned legal person shares of RMB1.00 each	450,000	450,000
335,000,000	H shares of RMB1.00 each	335,000	335,000
785,000,000		785,000	785,000

28. RESERVES

	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Reserve fund RMB'000	Enterprise expansion fund RMB'000	Capital (accumulated reserve RMB'000	Retained profits/ losses) RMB'000	Total RMB'000
At 1 January 1999	1,378,840	44,847	44,847	-	-	-	105,406	1,573,940
Profit for the year	-	-	-	-	-	-	80,121	80,121
Transfer from/(to) reserves	-	11,555	11,555	564	320	-	(23,994)	-
Goodwill written off on acquisition of subsidiaries	-	-	-	-	-	(6)	-	(6)
Capital reserve arising on acquisition of a subsidiary	-	-	-	-	-	101	-	101
Dividend	-	-	-	-	-	-	(41,703)	(41,703)
At 31 December 1999 and beginning of year	1,378,840	56,402	56,402	564	320	95	119,830	1,612,453
Loss for the year	-	-	-	-	-	-	(157,053)	(157,053)
Transfer from/(to) reserves	-	1,767	1,767	-	-	-	(3,534)	-
Goodwill written off on acquisition of minority interests	-	-	-	-	-	(95)	(14,174)	(14,269)
At 31 December 2000	1,378,840	58,169	58,169	564	320	-	(54,931)	1,441,131-
Reserves retained by:								
Company and its subsidiaries	1,378,840	56,402	56,402	564	320	95	109,713	1,602,336
Associates	-	-	-	-	-	-	2,191	2,191
Jointly-controlled entity	-	-	-	-	-	-	7,926	7,926

31 December 1999	1,378,840	56,402	56,402	564	320	95	119,830	1,612,453
Reserves retained by:								
Company and its subsidiaries	1,378,840	58,169	58,169	564	320	-	(36,308)	1,459,754
Associates	-	-	-	-	-	-	(27,212)	(27,212)
Jointly-controlled entity	-	-	-	-	-	-	8,589	8,589
31 December 2000	1,378,840	58,169	58,169	564	320	-	(54,931)	1,441,131

	Share premium reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Reserve fund RMB'000	Enterprise expansion fund RMB'000	Capital reserve RMB'000	Retained profits/ losses (accumulated) RMB'000	Total RMB'000
At 1 January 1999	1,378,840	39,875	39,875	-	-	-	108,393	1,566,983
Profit for the year	-	-	-	-	-	-	51,596	51,596
Transfer from/(to) reserves	-	8,513	8,513	-	-	-	(17,026)	-
Dividend	-	-	-	-	-	-	(41,703)	(41,703)
At 31 December 1999 and beginning of year	1,378,840	48,388	48,388	-	-	-	101,260	1,576,876
Loss for the year	-	-	-	-	-	-	(147,310)	(147,310)
At 31 December 2000	1,378,840	48,388	48,388	-	-	-	(46,050)	1,429,566

In accordance with the relevant PRC laws and regulations, the Company is required to appropriate 10% and 5% to 10% of its annual statutory profit after tax, as determined in accordance with PRC accounting rules and regulations, to a statutory surplus reserve ("SSR") and a statutory public welfare fund ("PWF"), respectively. No allocation to the SSR is required after the balance of the Company's SSR reaches 50% of its registered capital.

The SSR may only be used to offset accumulated losses, to expand the production operations of the Company, or to increase its paid-up capital.

The PWF is used for the collective welfare of the staff and workers of the Company.

No transfer to SSR and PWF has been proposed by the directors because the Company incurred a loss during the year.

At the balance sheet date, the Company had not utilised any SSR and PWF.

During the year, the subsidiaries' aggregate appropriations to each of the SSR and PWF, as dealt with in the Group's financial statements, were RMB1.8 million and RMB1.8 million, respectively.

As at 31 December 2000, the Group had no retained profits (1999: retained profits of RMB119.8 million) available for distribution by way of cash or in kind.

As at 31 December 2000, in accordance with the PRC Companies Law, an amount of approximately RMB1.38 billion (1999: RMB1.38 billion) standing to the credit of the Group's share premium account was available for distribution by way of future capitalisation issues.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) from operating activities to net cash inflow from operating activities

	2000 RMB'000	1999 RMB'000
Profit/(loss) from operating activities	(119,887)	143,352
Interest income	(27,927)	(35,643)
Gains on disposal of listed investments	(3,000)	-
Depreciation of fixed assets	97,929	93,507
Provisions for impairments of construction in progress	10,135	-
Provisions for impairments of fixed assets	29,735	-
Loss on disposal of fixed assets	1,874	1,184
Decrease in inventories	32,453	8,860
Decrease/(increase) in trade and bills receivables	46,762	(2,245)
(Increase)/decrease in prepayments, deposits and other debtors	(5,196)	92,503
(Increase)/decrease in amounts due from related companies	(4,960)	18,062
Decrease/(increase) in amount due from Holding	106,378	(106,378)
Decrease in trade and bills payables	(71,213)	(56,642)
Increase in accruals and other liabilities	17,168	21,933
Increase in amounts due to related companies	2,714	1,314
Increase/(decrease) in amount due to Holding	12,995	(4,363)
Net cash inflow from operating activities	125,960	175,444

(b) Analysis of changes in financing

	Share capital (including share premium) RMB'000	Bank and other loans RMB'000	Debentures RMB'000	Minority interests RMB'000
Balance at 1 January 1999	2,163,840	109,070	16,313	180,831
Arising from acquisition of subsidiaries	-	34,450	-	17,299
Share of profit after tax of subsidiaries	-	-	-	13,594
Cash inflow/(outflow) from financing activities, net	-	54,450	(16,313)	-

Dividends paid to minority shareholders	-	-	-	(16,315)
At 31 December 1999 and beginning of year	2,163,840	197,970	-	195,409
Arising from acquisition of subsidiaries	—	—	—	11,995
Share of losses of subsidiaries	—	—	—	(24,145)
Cash inflow from financing activities, net	-	20,859	-	-
Dividends paid to minority shareholders	—	—	—	(2,245)
Interests acquired	—	—	—	(115,084)
At 31 December 2000	2,163,840	218,829	—	65,930

(c) Acquisition of subsidiaries

	2000	1999
	RMB'000	RMB'000
Net assets acquired:		
Fixed assets	8,590	33,456
Construction in progress	—	68
Cash and bank balances	48,990	7,700
Trade and bills receivables	16,554	
Prepayments, deposits and other debtors	182	33,568
Inventories	1,435	26,394
Interest-bearing bank loans	—	(34,450)
Trade and bills payables	(1,212)	(16,254)
Accruals and other liabilities	—	(20,285)
Tax payable	—	(967)
Due to related companies	—	(560)
Minority interests	(11,995)	(17,299)
	45,990	27,925
Goodwill	—	6
Capital reserve	—	(101)
	45,990	27,830
Satisfied by:		
Cash	45,990	27,830

The subsidiaries acquired during the year contributed RMB9,081,000 (1999: RMB30,604,000 cash inflow) to the Group's net operating cash outflows, received RMB157,000 (1999: paid RMB1,282,000) in respect of the net returns on investments and servicing of finance, no payment was made (1999: paid RMB1,437,000) in respect of tax, utilised RMB6,758,000 (1999: RMB4,307,000) for investing activities and no contribution (1999: RMB3,420,000) for financing activities.

Analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2000	1999
	RMB'000	RMB'000
Cash and bank balances acquired	48,990	7,700
Cash consideration	(45,990)	(27,830)
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	3,000	(20,130)

The subsidiaries acquired during the year contributed RMB14,588,000 (1999: RMB100,130,000) to the Group's turnover.

The post-acquisition losses before minority interest dealt with in the Company's consolidated financial statements in respect of subsidiaries acquired during the year was RMB5.5 million (1999: profits of RMB8.9 million).

(d) Acquisition of minority interests

	2000	1999
	RMB'000	RMB'000
Net assets acquired:		
Minority interests	115,084	-
Goodwill arising on acquisition of minority interests	14,269	-
	129,353	-
Satisfied by:		
Cash	129,353	-

30. RETIREMENT BENEFITS

The Company participates in the central retirement and pension fund scheme organised by the Luoyang Municipal Government and makes an annual contribution representing 25.5%-28% (1999: 25.5%) of the total annual wages of employees to the aforesaid retirement and pension fund, out of which the pensions of the Company's retired employees are paid.

31. CAPITAL COMMITMENTS

Commitments for capital expenditures at 31 December 2000 were as follows:

	Group		Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Capital commitments in respect of plant and machinery:				
Contracted for	27,479	5,292	20,160	4,309
Authorised, but not contracted for	18,500	3,590	18,500	3,590
Capital commitments in respect of investment in a subsidiary in the PRC:				
Authorised, but not contracted for	15,695	-	15,695	-
Annual commitments payable in the following year under non-cancellable operating leases:				
Land and buildings expiring:				
Within one year	2,290	-	1,750	-
In the second to fifth years, inclusive	1,055	6,162	-	5,000
After five years	8,410	8,211	5,000	5,000
Plant and machinery expiring:				
Within one year	29	-	-	-
In the second to fifth years, inclusive	200	-	-	-
After five years		8,547	-	-

32. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date.

As at 31 December 2000, the Company had given corporate guarantees of RMB20 million (1999: Nil) to banks in connection with facilities granted to a subsidiary. The facilities were utilised to the extent of RMB20 million.

33. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC ACCOUNTING STANDARDS AND HONG KONG ACCOUNTING PRACTICES

Other than the differences in the classification of certain financial statement items and the following differences in accounting treatments, there are no material differences between the amounts reported in the Group's financial statements prepared in accordance with PRC accounting standards and Hong Kong accounting practices.

Under PRC accounting standards, goodwill, including both positive goodwill and negative goodwill, arising on consolidation is stated in the consolidated balance sheet and amortised on straight-line basis over a period of ten years.

Under Hong Kong accounting practices, in these financial statements, goodwill arising on consolidation is eliminated against reserves in the year of acquisition.

Under PRC accounting standards, long term investments in equity of not less than 20% and in which the Company is in a position to exercise significant influence are accounted for using the equity method in the Company's own financial statements.

Under Hong Kong accounting practices, similar long term investments are stated at cost in the Company's own financial statements unless, in the opinion of the directors, there have been diminutions in values other than temporary in nature, when they are written down to values determined by the directors.

Under PRC accounting standards, interest income arising from subscription monies is treated as deferred income and is amortised on a straight-line basis over five years.

Under Hong Kong accounting practices, such interest income is accounted for on an accrual basis in the year in which it arises.

The differences in the treatment of investments in subsidiaries and the interest income arising from subscription monies in the Company's and the Group's financial statements are compared as follows:

	Hong Kong accounting practices		PRC accounting standards	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Group				
Consolidated balance sheet:				
Goodwill	-	-	26,749	19,462
Capital reserve	-	-	-	(95)
Deferred tax	(3,702)	(6,170)	-	-
Deferred income	-	-	(11,217)	(18,696)
Reserves	(1,441,131)	(1,612,453)	(1,460,365)	(1,619,294)
Net assets	2,226,131	2,397,453	2,245,365	2,404,294
Consolidated profit and loss account:				
Amortisation of goodwill	-	-	(6,887)	-
Amortisation of deferred income	-	-	7,479	7,479
Deferred tax	2,468	2,468	-	-

Company

Balance sheet:

Long term investments (equity of not less than 20%)	220,551	138,999	258,865	193,943
Deferred tax	(3,702)	(6,170)	-	-
Deferred income	-	-	(11,217)	(18,696)
Reserves	(1,429,566)	(1,576,876)	(1,460,365)	(1,619,294)
Net assets	2,214,566	2,361,876	2,245,365	2,404,294

Profit and loss account:

Investment income/(losses) equity accounted for	—	-	(102,630)	28,525
Provisions for diminutions in values of subsidiaries and associates	(86,000)	-	-	-
Amortisation of deferred income	—	-	7,479	7,479
Deferred tax	2,468	2,468	-	-

34. COMPARATIVE FIGURES

The provision for inventories of RMB16,464,000 and doubtful debts of RMB33,771,000 recorded in the prior year administrative expenses have been reclassified to cost of sales and other operating expenses respectively because in the opinion of the directors, the reclassification provides a better presentation of the Group's prior year profit and loss account.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 25 April 2001.