REPORT OF THE INTERNATIONAL AUDITORS

ERNST & YOUNG
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To the members
First Tractor Company Limited
(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on pages 35 to 80 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our 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 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
25 April 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2002

	Notes	2002 RMB'000	2001 RMB'000
TURNOVER	5	**2,300,223**	1,863,824
Cost of sales		**(2,034,741)**	(1,625,739)
Gross profit		**265,482**	238,085
Other revenue and gains	5	**93,115**	99,697
Selling and distribution costs		**(114,341)**	(89,516)
Administrative expenses		**(205,735)**	(216,242)
Other operating expenses		**(68,017)**	(95,505)
LOSS FROM OPERATING ACTIVITIES	6	**(29,496)**	(63,481)
Finance costs	7	**(16,546)**	(20,168)
Share of profits and losses of:			
Jointly-controlled entity		**2,162**	830
Associates		**8,178**	(14,788)
Negative goodwill recognised as income on acquisition of an associate	18	**606**	—
LOSS BEFORE TAX		**(35,096)**	(97,607)
Tax	10	**(16,776)**	(16,786)
LOSS BEFORE MINORITY INTERESTS		**(51,872)**	(114,393)
Minority interests		**(7,618)**	(3,406)
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	**(59,490)**	(117,799)
LOSS PER SHARE – Basic	12	**7.58 cents**	15.01 cents

CONSOLIDATED BALANCE SHEET

31 December 2002

	Notes	2002 RMB'000	2001 RMB'000
NON-CURRENT ASSETS			
Fixed assets	13	**787,407**	801,858
Construction in progress	14	**74,299**	59,032
Negative goodwill	15	**(2,227)**	—
Interest in a jointly-controlled entity	17	**23,768**	29,388
Interests in associates	18	**20,065**	—
Long term investments	19	**59,728**	91,608
Loans receivable	20	**5,792**	—
		968,832	981,886
CURRENT ASSETS			
Inventories	21	**629,704**	559,455
Trade and bills receivables	22	**406,196**	423,589
Loans receivable	20	**103,015**	—
Other receivables	23	**152,203**	128,031
Short term investments	26	**84,503**	82,264
Pledged deposits	27	**174,079**	23,302
Cash and cash equivalents	27	**815,856**	890,052
		2,365,556	2,106,693
CURRENT LIABILITIES			
Trade and bills payables	28	**494,089**	373,254
Tax payable		**6,376**	2,533
Other payables and accruals	29	**387,547**	280,119
Customers deposits	31	**122,259**	—
Interest-bearing bank and other loans	32	**170,050**	257,060
		1,180,321	912,966
NET CURRENT ASSETS		**1,185,235**	1,193,727
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,154,067**	2,175,613
NON-CURRENT LIABILITIES			
Deferred tax	33	**—**	1,234
MINORITY INTERESTS		**105,225**	66,047
		2,048,842	2,108,332

CONSOLIDATED BALANCE SHEET *(continued)*

31 December 2002

	Notes	**2002**	2001
		RMB'000	*RMB'000*
CAPITAL AND RESERVES			
Issued capital	34	**785,000**	785,000
Reserves	35	**1,263,842**	1,323,332
		2,048,842	2,108,332

Dong Yong An
Director

Shao Hai Chen
Director

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2002

	Notes	**2002**	2001
		RMB'000	*RMB'000*
Total equity at 1 January		**2,108,332**	2,226,131
Net loss for the year attributable to shareholders	35	**(59,490)**	(117,799)
Total equity at 31 December		**2,048,842**	2,108,332

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2002

	Notes	2002 RMB'000	2001 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(35,096)**	(97,607)
Adjustments for:			
Finance costs	7	**16,546**	20,168
Share of profit of a jointly-controlled entity		**(2,162)**	(830)
Share of profits and losses of associates		**(8,178)**	14,788
Interest income	5, 6	**(22,003)**	(32,523)
Loss on disposal of fixed assets	6	**156**	1,590
Loss on partial disposal of a subsidiary	6	**18**	—
Depreciation	6	**100,286**	86,041
Impairment of construction in progress	6	**—**	411
Impairment of fixed assets	6	**10,000**	48,000
Negative goodwill recognised as income on acquisition of a subsidiary	6	**(117)**	—
Negative goodwill recognised as income on acquisition of an associate	18	**(606)**	—
Provision for impairment of long term unlisted investments	6	**2,123**	—
Dividend income from long term unlisted investments	5, 6	**(1,061)**	(1,250)
Gain on disposal of short term listed investments	5, 6	**(1,251)**	(7,715)
Provision for bad and doubtful debts	6	**26,847**	22,986
Provision for loans receivable	6	**825**	—
Provision/(reversal of provision) for obsolete inventories	6	**5,026**	(5,800)
Unrealised loss on changes in fair values of short term listed investments	6	**1,521**	644
Operating profit before working capital changes		**92,874**	48,903
(Increase)/decrease in inventories		**(29,440)**	45,383
Increase in loans receivable		**(75,150)**	—
(Increase)/decrease in trade and bills receivables		**(3,419)**	40,844
Decrease/(increase) in prepayments, deposits and other debtors		**6,551**	(6,046)
(Increase)/decrease in amounts due from related companies		**(917)**	6,997
Increase in amount due from the Holding		**(19,005)**	(21,753)
(Increase)/decrease in short term investments		**(2,509)**	34,447
Increase/(decrease) in trade and bills payables		**100,219**	(30,071)
Increase in customers deposits		**74,691**	—
Increase in accruals and other liabilities		**61,912**	18,611
Increase/(decrease) in provision for product warranties		**1,000**	(500)
(Decrease)/increase in amounts due to related companies		**(2,482)**	10,024
Increase/(decrease) in amount due to the Holding		**5,032**	(111,879)
Cash generated from operations		**209,357**	34,960

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

Year ended 31 December 2002

	Notes	**2002**	2001
		RMB'000	*RMB'000*
Cash generated from operations		**209,357**	34,960
Interest received		**22,003**	32,523
Interest paid		**(16,546)**	(20,168)
Income tax paid		**(12,888)**	(31,355)
Net cash inflow from operating activities		**201,926**	15,960
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend income from long term unlisted investments		**1,061**	1,250
Dividend income received from an associate		**3,600**	—
Dividend income received from a jointly-controlled entity		**7,118**	—
Purchases of fixed assets and additions to construction in progress		**(99,442)**	(65,987)
Proceeds from disposal of fixed assets		**5,180**	2,904
Purchases of long term investments		**(243)**	(43,000)
Repayment of long term investments		**30,000**	—
Investments in associates		**(15,905)**	—
Acquisition of a subsidiary	36(b)	**6,616**	—
Decrease/(increase) in time deposits		**101,464**	(32,275)
Increase in pledged deposits		**(150,777)**	(23,302)
Net cash outflow from investing activities		**(111,328)**	(160,410)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**340,550**	309,220
Repayment of bank and other loans		**(429,560)**	(270,989)
Dividends paid to minority shareholders		**(11,625)**	(3,289)
Contribution from minority shareholders		**6,305**	—
Proceeds from partial disposal of a subsidiary		**31,000**	—
Net cash (outflow)/inflow from financing activities		**(63,330)**	34,942

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

Year ended 31 December 2002

	Notes	**2002** **RMB'000**	2001 RMB'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**27,268**	(109,508)
Cash and cash equivalents at beginning of year		**318,401**	427,909
CASH AND CASH EQUIVALENTS AT END OF YEAR		**345,669**	318,401
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	**254,367**	266,604
Non-pledged time deposits with original maturity of less than three months when acquired	27	**91,302**	51,797
		345,669	318,401

BALANCE SHEET

31 December 2002

	Notes	2002 RMB'000	2001 RMB'000
NON-CURRENT ASSETS			
Fixed assets	13	**572,341**	619,277
Construction in progress	14	**60,426**	51,946
Interests in subsidiaries	16	**704,754**	597,539
Investment in a jointly-controlled entity	17	**25,000**	25,000
Investments in associates	18	**—**	—
Long term investments	19	**53,180**	55,303
		1,415,701	1,349,065
CURRENT ASSETS			
Inventories	21	**221,197**	226,151
Trade and bills receivables	22	**82,778**	97,696
Other receivables	23	**76,344**	65,055
Short term investments	26	**80,000**	80,000
Pledged deposits	27	**105,098**	16,446
Cash and cash equivalents	27	**473,097**	641,584
		1,038,514	1,126,932
CURRENT LIABILITIES			
Trade and bills payables	28	**223,207**	221,432
Tax payable		**769**	—
Other payables and accruals	29	**148,162**	129,687
Interest-bearing bank loans	32	**20,000**	25,000
		392,138	376,119
NET CURRENT ASSETS		**646,376**	750,813
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,062,077**	2,099,878
NON-CURRENT LIABILITIES			
Deferred tax	33	**—**	1,234
		2,062,077	2,098,644
CAPITAL AND RESERVES			
Issued capital	34	**785,000**	785,000
Reserves	35	**1,277,077**	1,313,644
		2,062,077	2,098,644

Dong Yong An
Director

Shao Hai Chen
Director

1. CORPORATE INFORMATION

The registered office of First Tractor Company Limited is located at 154 Jian She Road, Luoyang, Henan Province, the People's Republic of China (the "PRC").

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

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

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

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised) : "Presentation of Financial Statements"
- SSAP 11 (Revised) : "Foreign Currency Translation"
- SSAP 15 (Revised) : "Cash Flow Statements"
- SSAP 34 : "Employee Benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 38 of the Annual Report in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss account of the overseas subsidiary is now translated to Renminbi at the weighted average exchange rates for the year, whereas previously it was translated at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details of this change are included in the accounting policy for "Foreign currencies" in note 3 to the financial statements.

SSAP 15 prescribes the format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flows statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from the overseas subsidiary arising during the year are now translated to Renminbi at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. Further details of these changes are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in note 3 and note 36(a) to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits.

3. 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 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 2002. 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 intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company, other than a jointly-controlled 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 profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company 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 company'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 company is treated as:

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Joint venture companies *(continued)*

(d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entity

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of the 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, less any impairment losses.

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 investment in a jointly-controlled entity is treated as a long term asset and is stated at cost less any impairment losses.

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated 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 impairment losses. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investments in associates are treated as long term assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and a jointly-controlled entity represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life. In the case of associates and jointly-controlled entity, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

SSAP 30 "Business Combinations" was adopted as at 1 January 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, associates or a jointly-controlled entity, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries, associates and a jointly-controlled entity represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates and a jointly-controlled entity, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

SSAP 30 "Business Combinations" was adopted as at 1 January 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such negative goodwill, to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries, associates or a jointly-controlled entity, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. 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 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 asset.

Depreciation is calculated on the 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:

Land use rights	Over the lease terms
Buildings	8 - 30 years
Plant, machinery and equipment	6 - 16 years
Transportation vehicles and equipment	6 - 12 years

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Construction in progress

Construction in progress represents factory buildings, plant and machinery and other fixed assets 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 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. The estimated fair values of unlisted investments are determined 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 allowance made for the lower liquidity of the unlisted securities.

The gains or losses arising from changes in the fair value 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 in 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 in the period in which they arise.

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 any provision for obsolescence.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

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

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

Provision for product warranties 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, discounted to their present value as appropriate.

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.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income and trademark licence fee, on a time proportion basis over the lease terms;

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

(d) dividend and investment income, when the right to receive payment has been established.

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.

3. 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 profit and loss account 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 profit and loss account on the straight-line basis over the lease terms.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of the overseas subsidiary are translated into Renminbi using the net investment method. The profit and loss account of the overseas subsidiary is translated to Renminbi at the weighted average exchange rates for the year, and its balance sheet is translated to Renminbi at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of the overseas subsidiary are translated to Renminbi at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiary which arise throughout the year are translated to Renminbi at the average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss account and cash flows of the overseas subsidiary were translated to Renminbi at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements, whereas the adoption of the revised SSAP 15 has resulted in changes to the layout of the consolidated cash flow statement, further details of which are included in note 36(a) to the financial statements.

Retirement benefits scheme

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

Accounting for financial operations

Loans receivable arising from financial operations of the Group are reported in the consolidated balance sheet at the principal amount outstanding net of provision for loans receivable.

All loans are recognised when cash is advanced to borrowers.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the tractors segment engages in the manufacture and sale of tractors, related parts and components;

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

(c) the construction machinery segment engages in the manufacture and sale of construction machinery;

(d) the harvesting machinery segment engages in the manufacture and sale of harvesting machinery;

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

(f) the "others" segment comprises, principally, the manufacture and sale of biochemical products.

In determining the Group's geographical segments, revenues and results 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.

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

4. SEGMENT INFORMATION *(continued)*

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

	Tractors		Road machinery		Construction machinery		Harvesting machinery		Financial operations		Others		Eliminations		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	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***	*RMB'000*
Segment revenue:																
Sales to external customers	**1,475,760**	1,300,242	**583,190**	433,218	**198,078**	89,989	**31,325**	32,192	**–**	–	**11,870**	8,183	**–**	–	**2,300,223**	1,863,824
Intersegment revenue	**22,102**	33,596	**–**	–	**27,758**	88,582	**–**	–	**2,393**	–	**–**	–	**(52,253)**	(122,178)	**–**	–
Other revenue and gains	**–**	–	**–**	–	**–**	–	**–**	–	**7,528**	–	**–**	–	**–**	–	**7,528**	–
Total	**1,497,862**	1,333,838	**583,190**	433,218	**225,836**	178,571	**31,325**	32,192	**9,921**	–	**11,870**	8,183	**(52,253)**	(122,178)	**2,307,751**	1,863,824
Segment results	**(87,922)**	(135,667)	**48,550**	34,793	**5,285**	(2,828)	**(19,920)**	(14,690)	**5,017**	–	**(493)**	6,667	**–**	–	**(49,483)**	(111,725)
Interest, dividend, investment income and negative goodwill recognised as income															23,649	48,888
Unallocated expenses															(3,662)	(644)
Loss from operating activities															(29,496)	(63,481)
Finance costs															(16,546)	(20,168)
Share of profits and losses of:																
Jointly-controlled entity	2,162	830	–	–	–	–	–	–	–	–	–	–	–	–	2,162	830
Associates	–	–	–	–	–	–	–	–	–	–	8,178	(14,788)	–	–	8,178	(14,788)
Negative goodwill recognised as income on acquisition of an associate	–	–	–	–	–	–	–	–	–	–	606	–	–	–	606	–
Loss before tax															(35,096)	(97,607)
Tax															(16,776)	(16,786)
Loss before minority interests															(51,872)	(114,393)
Minority interests															(7,618)	(3,406)
Net loss from ordinary activities attributable to shareholders															(59,490)	(117,799)

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

	Tractors		Road machinery		Construction machinery		Harvesting machinery		Financial operations		Others		Eliminations		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	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***	*RMB'000*
Segment assets	**2,114,795**	2,322,702	**624,536**	501,753	**168,350**	168,810	**69,679**	64,131	**576,590**	–	**71,280**	52,181	**(481,338)**	(228,015)	**3,143,892**	2,881,562
Interest in a jointly-controlled entity	**23,768**	29,388	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**23,768**	29,388
Interests in associates	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**20,065**	–	**–**	–	**20,065**	–
Unallocated assets															**146,663**	177,629
Total assets															**3,334,388**	3,088,579
Segment liabilities	**564,625**	488,556	**439,341**	208,117	**48,830**	34,643	**36,173**	24,408	**269,513**	–	**126,751**	125,664	**(481,338)**	(228,015)	**1,003,895**	653,373
Unallocated liabilities															**176,426**	260,827
Total liabilities															**1,180,321**	914,200
Other segment information:																
Capital expenditure	**58,279**	47,855	**28,831**	10,047	**2,182**	2,796	**9,490**	4,721	**156**	–	**504**	568	**–**	–	**99,442**	65,987
Depreciation	**88,235**	75,515	**8,594**	6,819	**1,890**	2,516	**872**	723	**183**	–	**512**	468	**–**	–	**100,286**	86,041
Impairment losses of fixed assets and construction in progress recognised in the profit and loss account	**10,000**	48,000	**–**	411	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**10,000**	48,411
Other non-cash expenses:																
Provision/(reversal of provision) for bad and doubtful debts	**17,134**	5,486	**12,113**	15,000	**(2,400)**	2,500	**–**	–	**–**	–	**–**	–	**–**	–	**26,847**	22,986
Provision/(reversal of provision) for obsolete inventories	**(624)**	(4,900)	**3,250**	1,400	**–**	(4,700)	**2,400**	2,400	**–**	–	**–**	–	**–**	–	**5,026**	(5,800)
Provision for loans receivable	**–**	–	**–**	–	**–**	–	**–**	–	**825**	–	**–**	–	**–**	–	**825**	–

(b) Geographical segments

Over 90% of the Group's revenue, results, assets and capital expenditures are derived from operations carried out in the PRC and accordingly, no geographical segment information is presented.

5. TURNOVER, REVENUE AND GAINS

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 turnover, other revenue and gains is as follows:

	2002	2001
	RMB'000	*RMB'000*
Turnover		
Sale of goods	**2,300,223**	1,863,824
Other revenue and gains		
Interest income	**14,620**	32,523
Interest income from financial operations	**7,383**	—
Profit from sundry sales	**16,997**	8,886
Rental income	**3,254**	3,220
Trademark licence fee	**9,753**	10,320
Investment income from short term listed investments	**6,600**	7,400
Gain on disposal of short term listed investments	**1,251**	7,715
Dividend income from long term unlisted investments	**1,061**	1,250
Negative goodwill recognised as income on acquisition of subsidiary (note 15)	**117**	—
Others	**32,079**	28,383
	93,115	99,697

6. LOSS FROM OPERATING ACTIVITIES

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

	Notes	**2002**	2001
		RMB'000	*RMB'000*
Cost of inventories sold		**2,034,741**	1,625,739
Depreciation	13	**100,286**	86,041
Impairment of construction in progress**		**—**	411
Impairment of fixed assets**	13	**10,000**	48,000
Staff costs (excluding directors' and supervisors' remunerations - note 8):			
Wages and salaries		**245,512**	209,888
Pension scheme contributions		**50,658**	49,829
		296,170	259,717
Minimum lease payments under operating lease rentals:			
Land and buildings		**13,418**	12,676
Plant and machinery		**2,620**	2,877
		16,038	15,553
Research and development costs		**11,930**	6,143
Provision for product warranties		**6,416**	3,189
Auditors' remuneration		**3,000**	2,600
Provision for bad and doubtful debts		**26,847**	22,986
Provision for loans receivable		**825**	—
Provision/(reversal of provision) for obsolete inventories		**5,026**	(5,800)
Provision for impairment of long term unlisted investments	19	**2,123**	—
Loss on disposal of fixed assets		**156**	1,590
Loss on partial disposal of a subsidiary		**18**	—
Unrealised loss on changes in fair values of short term listed investments		**1,521**	644
Exchange gains, net		**(1,094)**	(54)
Investment income from short term listed investments		**(6,600)**	(7,400)
Gain on disposal of short term listed investments		**(1,251)**	(7,715)
Dividend income from long term unlisted investments		**(1,061)**	(1,250)
Interest income		**(14,620)**	(32,523)
Interest income from financial operations		**(7,383)**	—
Negative goodwill recognised as income on acquisition of a subsidiary*	15	**(117)**	—
Net rental income		**(3,254)**	(3,220)

* The movements in negative goodwill recognised in the profit and loss account for the year is included in "Other revenue and gains" on the face of the consolidated profit and loss account.

** The impairment of construction in progress and fixed assets are included in the "Other operating expenses" on the face of the consolidated profit and loss account.

7. FINANCE COSTS

	Group	
	2002	2001
	RMB'000	*RMB'000*
Interest on bank and other loans wholly repayable within five years	**16,546**	20,168
Less: Interest capitalised	**—**	—
	16,546	20,168

8. REMUNERATIONS OF DIRECTORS AND SUPERVISORS

The directors' and supervisors' remunerations 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 are as follows:

	Group	
	2002	2001
	RMB'000	*RMB'000*
Fees	**—**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**551**	484
Performance related bonuses	**—**	—
Retirement fund contributions	**149**	136
	700	620
	700	620

There was no remuneration payable to the independent non-executive directors for their services rendered to the Company during the year (2001: Nil).

The number of directors and supervisors whose remuneration fell within the following band is as follows:

	Number of directors and supervisors	
	2002	2001
Nil to HK$1,000,000	**22**	19

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the two years ended 31 December 2002 and 2001 were all directors of the Company, details of whose remuneration are set out in note 8 above.

10. TAX

	2002 *RMB'000*	2001 *RMB'000*
The Company and subsidiaries:		
PRC income tax provided for the year	**16,322**	19,124
Deferred tax (note 33)	**(1,234)**	(2,468)
	15,088	16,656
Share of tax attributable to:		
Jointly-controlled entity	**664**	130
Associates	**1,024**	—
Tax charge for the year	**16,776**	16,786

No provision for Hong Kong profits tax has been made as the Group had no assessable profits earned in or derived from Hong Kong during the two years ended 31 December 2002 and 2001.

The PRC income tax for the Company and its subsidiaries is calculated at rates ranging from 12% to 33% (2001: 12% to 33%) on their estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof.

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

The PRC income tax of the associates and a jointly-controlled entity is calculated at rates ranging from 18% to 33% (2001: 15% 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 (2001: Nil).

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company is RMB36,567,000 (2001: RMB115,922,000).

12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of RMB59,490,000 (2001: RMB117,799,000), and the weighted average of 785,000,000 (2001: 785,000,000) ordinary shares in issue during the year.

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

13. FIXED ASSETS

	Land use right RMB'000	Buildings RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
Group					
Cost:					
At beginning of year	–	793,956	1,269,941	73,285	2,137,182
Additions	7,763	513	4,245	5,149	17,670
Acquisition of a subsidiary (note 36(b))	–	7,639	976	206	8,821
Contribution by minority interests as capital of a subsidiary (note 36(c))	–	6,719	8,119	218	15,056
Transfer from construction in progress (note 14)	–	11,710	49,742	5,824	67,276
Reclassifications	–	(19,241)	19,217	24	–
Disposals	–	(3,170)	(10,344)	(5,919)	(19,433)
At 31 December 2002	7,763	798,126	1,341,896	78,787	2,226,572
Accumulated depreciation and impairment:					
At beginning of year	–	448,560	850,881	35,883	1,335,324
Depreciation provided during the year	–	21,305	73,102	5,879	100,286
Acquisition of a subsidiary (note 36(b))	–	541	870	200	1,611
Contribution by minority interests as capital of a subsidiary (note 36(c))	–	2,012	3,971	58	6,041
Impairment during the year recognised in the profit and loss account	–	–	10,000	–	10,000
Reclassifications	–	(5,880)	5,850	30	–
Disposals	–	(1,482)	(9,255)	(3,360)	(14,097)
At 31 December 2002	–	465,056	935,419	38,690	1,439,165
Net book value:					
At 31 December 2002	7,763	333,070	406,477	40,097	787,407
At 31 December 2001	–	345,396	419,060	37,402	801,858

13. FIXED ASSETS *(continued)*

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
Company				
Cost:				
At beginning of year	606,005	1,059,312	21,920	1,687,237
Transfer from construction in progress (note 14)	5,711	40,473	338	46,522
Reclassifications	(19,241)	19,217	24	–
Disposals	(149)	(6,988)	(2,546)	(9,683)
At 31 December 2002	592,326	1,112,014	19,736	1,724,076
Accumulated depreciation and impairment:				
At beginning of year	348,956	707,864	11,140	1,067,960
Depreciation provided during the year	16,541	63,370	1,988	81,899
Impairment during the year recognised in the profit and loss account	–	10,000	–	10,000
Reclassifications	(5,880)	5,850	30	–
Disposals	(142)	(6,446)	(1,536)	(8,124)
At 31 December 2002	359,475	780,638	11,622	1,151,735
Net book value:				
At 31 December 2002	232,851	331,376	8,114	572,341
At 31 December 2001	257,049	351,448	10,780	619,277

All of the Group's and Company's land and buildings are located in the PRC and are held on medium term leases.

At 31 December 2002, certain of the Group's buildings and machinery with a carrying value of approximately RMB39,990,000 (2001: RMB34,881,000) were pledged to secure certain short term bank loans granted to the Group (note 32(a)).

At 31 December 2002, certain of the Group's buildings with cost of approximately RMB30,264,000 (2001: RMB37,732,000) and accumulated depreciation and impairment of approximately RMB25,863,000 (2001: RMB31,463,000) were leased to third parties under operating leases, the depreciation and impairment loss of these fixed assets recognised in the consolidated profit and loss account during the year amounted to approximately RMB928,000 (2001: RMB1,398,000) and nil (2001: RMB4,000,000), respectively, further details of which are included in note 39(a) to the financial statements.

13. FIXED ASSETS *(continued)*

At 31 December 2002, certain of the Group's plant, machinery and equipment with cost of approximately RMB61,913,000 (2001: RMB61,791,000) and accumulated depreciation and impairment of RMB54,735,000 (2001: RMB53,581,000) were leased to third parties under operating leases, the depreciation and impairment loss of these fixed assets recognised in the consolidated profit and loss account during the year amounted to approximately RMB2,349,000 (2001: RMB892,000) and nil (2001: RMB4,000,000), respectively, further details of which are included in note 39(a) to the financial statements.

Impairment during the year recognised in the profit and loss account is summarised as follows:

	RMB'000
Steel Casting Factory (Note)	7,500
Others	2,500
	10,000

Note: Due to the decline in production of crawled tractors, the directors anticipate that certain machineries of Steel Casting Factory (a factory owned by the Company) will be under long term idle condition, and accordingly, an impairment provision has been made to write down those fixed assets which do not have other use to its recoverable amount. The recoverable amount is determined based on the net selling price, which is based on the scrap value of the assets.

14. CONSTRUCTION IN PROGRESS

	Group *RMB'000*	**Company** *RMB'000*
Cost:		
At beginning of year	68,083	59,315
Additions	81,772	55,002
Contribution by minority interests as capital of a subsidiary (note 36(c))	771	—
Transfer to fixed assets (note 13)	(67,276)	(46,522)
At 31 December 2002	83,350	67,795
Accumulated impairment:		
At beginning and end of year	9,051	7,369
Net book value:		
At 31 December 2002	74,299	60,426
At 31 December 2001	59,032	51,946

15. GOODWILL AND NEGATIVE GOODWILL

The amounts of the negative goodwill recognised in the consolidated balance sheet, arising from the acquisition of a subsidiary, is as follows:

	Group Negative goodwill *RMB'000*
Cost:	
At beginning of year	–
Acquisition of a subsidiary	2,614
Partial disposal of a subsidiary	(270)
At 31 December 2002	2,344
Accumulated recognition as income:	
At beginning of year	–
Recognised as income during the year	117
At 31 December 2002	117
Net book value:	
At 31 December 2002	2,227
At 31 December 2001	–

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves or credited to the capital reserve, respectively.

The amounts of goodwill and negative goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries prior to 1 January 2001, were RMB39,844,000 and RMB11,111,000, respectively, as at 1 January and 31 December 2002. The amounts of goodwill and negative goodwill are stated at their costs which arose in prior years.

16. INTERESTS IN SUBSIDIARIES

Company	2002 RMB'000	2001 RMB'000
Unlisted investments, at cost	**500,831**	255,246
Loans to subsidiaries	**72,000**	102,000
Deposits placed in a subsidiary	**80,433**	–
Due from subsidiaries	**220,391**	388,511
Due to subsidiaries	**(64,016)**	(47,733)
	809,639	698,024
Provision for impairment	**(58,380)**	(53,980)
Provision for amount due from a subsidiary	**(46,505)**	(46,505)
	704,754	597,539

The loans to subsidiaries, which are granted in the form of designated deposits through a bank in the PRC and a subsidiary of the Company, are unsecured, bear interest at rates ranging from 5.31% to 5.85% (2001: 5.85%) per annum and are repayable within one year.

The balances due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. Included therein are amounts due from/to subsidiaries aggregating RMB87,460,000 and nil, respectively (2001: RMB261,562,000 and RMB24,000, respectively) in respect of trading balances which, although technically currently repayable under the original terms of the transactions giving rise thereto, have been deferred and are therefore classified as non-current.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Brilliance China Machinery Holdings Limited ("BCM")	Bermuda	US$12,000	90.1	–	Investment holding
Yituo (Luoyang) Construction Machinery Co., Ltd.	PRC	US$9,980,000	49	46	Manufacture and sale of tractors and construction machinery
Yituo (Luoyang) Building Machinery Co., Ltd. ("YBMC")	PRC	US$9,980,000	49	46	Manufacture and sale of road rollers and road construction machinery

16. INTERESTS IN SUBSIDIARIES *(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
First Tractor Qingjiang Tractor Company Limited ("FTQT") *	PRC	RMB80,000,000	51	–	Manufacture and sale of tractors and related parts and components
Luoyang Changlun Agricultural Machinery Company Limited *	PRC	RMB500,000	99	–	Trading of tractors
First Tractor Shenyang Tractor Company Limited *	PRC	RMB27,000,000	60	–	Manufacture and sale of tractors
Zhenjiang Huatong Aran Machinery Company Limited	PRC	US$1,000,000	–	53.2	Manufacture and sale of road construction machinery
Zhenjiang Huachen Huatong Road Machinery Company Limited	PRC	US$4,080,000	–	53.2	Manufacture and sale of road construction machinery
Yituo (Luoyang) Harvester Co., Ltd.*	PRC	RMB45,695,000	93.4	–	Manufacture and sale of agricultural harvesting machinery
Yituo (Zhenjiang) Harvester Co., Ltd.*	PRC	RMB11,984,400	–	60.7	Manufacture and sale of agricultural harvesting machinery
Guizhou Zhenning Biological Industrial Co., Ltd.*	PRC	RMB16,000,000	70	–	Manufacture and sale of biochemical products
Luoyang Changhong High Technology Trading Company Limited *	PRC	RMB3,000,000	91.7	8.2	Trading of tractors
China First Tractor Group Finance Company Limited ("FTGF") * – note (i)	PRC	RMB300,000,000	79.7	11.1	Provision of financial services
Yituo (Luoyang) Building Construction Machinery Company Limited ("YLBC") *– note (ii)	PRC	RMB18,303,000	35	–	Manufacture and sale of road rollers

16. INTERESTS IN SUBSIDIARIES *(continued)*

Notes:

(i) The Company acquired FTGF during the year. In accordance with the licence issued by the People's Bank of China (the "PBOC"), FTGF is permitted to conduct certain financial services, including loan-making, deposit-taking, bills-discounting and etc., principally with members within the Holding group, including the Company and its subsidiaries. Furthermore, certain financial services are also permitted to be extended to customers who purchased goods from the Holding group, including the Company and its subsidiaries. Further details of this acquisition are included in notes 36(b) and 41(c) to the financial statements.

(ii) The subsidiary was newly incorporated during the year. 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, the two shareholders each have delegated 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.

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

17. INTEREST/INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted shares, at cost	**–**	–	**25,000**	25,000
Share of net assets	**23,768**	29,388	**–**	–
	23,768	29,388	**25,000**	25,000

Goodwill remaining in consolidated reserves arising from the acquisition of the jointly-controlled entity amounted to RMB4,901,000 as at 1 January and 31 December 2002. The amount of goodwill is stated at cost.

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of registration and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
First Tractor Ningbo C.S.I. Tractor & Automobile Corp., Ltd.	Corporate	PRC	40	40	40	Manufacture and sale of tractors

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

18. INTERESTS/INVESTMENTS IN ASSOCIATES

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted shares, at cost	**–**	–	**42,000**	42,000
Share of net assets	**25,520**	–	**–**	–
Negative goodwill on acquisition	**(5,455)**	–	**–**	–
	20,065	–	**42,000**	42,000
Provision for impairment	**–**	–	**(42,000)**	(42,000)
	20,065	–	**–**	–

The Group's loan to and deposits from an associate are disclosed in notes 20 and 31 to the financial statements, respectively.

The Group's trade payable balance due to an associate is disclosed in note 28 to the financial statements.

The amount of negative goodwill from the acquisition of an associate is as follows:

	Group Negative goodwill *RMB'000*
Cost:	
At beginning of year	–
Acquisition of an associate	6,061
At 31 December 2002	6,061
Accumulated recognition as income:	
At beginning of year	–
Recognised as income during the year	606
At 31 December 2002	606
Net book value:	
At 31 December 2002	5,455
At 31 December 2001	–

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

Particulars of the principal associates are as follows:

Name	Business structure	Place of registration and operations	Percentage of ownership interest attributable to the Group Direct	Indirect	Principal activities
Shanghai Qiangnong (Group) Company Limited	Corporate	PRC	39.6	–	Trading of agricultural machinery
Shanghai Qiangnong Group Agricultural Machinery Co., Ltd.	Corporate	PRC	–	25.74	Trading of agricultural machinery and electrical equipment
Shanghai Agricultural Resources Trading Centre Co., Ltd.	Corporate	PRC	–	25.74	Trading of agricultural machinery and electrical equipment
Shanghai Shennong Automobiles Services Co., Ltd.	Corporate	PRC	–	31.68	Provision of transportation services
Shanghai Shangnong Property Development Company	Corporate	PRC	–	39.6	Property development
Yituo (Luoyang) Diesel Co., Ltd. ("YLDC") *	Corporate	PRC	–	22.53	Manufacture and sale of diesel engines
Shanghai Yitianxia Property Development Company Limited *	Corporate	PRC	-	42.04	Property development

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

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

* Associates newly acquired during the year.

19. LONG TERM INVESTMENTS

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted equity investments, at fair value	**61,851**	91,608	**55,303**	55,303
Provision for impairment (note 6)	**(2,123)**	–	**(2,123)**	–
	59,728	91,608	**53,180**	55,303

20. LOANS RECEIVABLE

			2002	
	Notes	**Gross**	**Provision**	**Net**
		RMB'000	*RMB'000*	*RMB'000*
Group				
Loan to the Holding	(i)	70,000	2,100	67,900
Loan to an associate	(ii)	15,400	154	15,246
Loans to related companies	(iii)	22,100	663	21,437
Loans to customers	(iv)	7,140	2,916	4,224
		114,640	5,833	108,807
Loans receivable maturing within one year		(108,430)	(5,415)	(103,015)
Long term portion		6,210	418	5,792

Notes:

(i) The Holding has recently confirmed to pledge certain fixed assets with carrying amount of approximately RMB172 million to FTGF for securing the loan granted to the Holding.

(ii) The loan to an associate represents the loan granted by FTGF to YLDC, an associate of the Group, whereby the Holding holds 75% equity interest and the remaining 25% equity interest is held by a non-wholly owned subsidiary of the Company.

(iii) The loans to related companies represent the loans granted by FTGF to First Tractor (Luoyang) Mould Factory, which is a wholly-owned subsidiary of the Holding, Yituo (Luoyang) Vehicle Co. Ltd., in which the Holding holds a 51% equity interest, and Yituo-made (Luoyang) Wind Turbine Co., Ltd. ("Yituo-Made"), in which the holding holds a 50% equity interest.

(iv) Loans to customers included a loan (net of provision) of RMB1,455,000 granted by FTGF to a customer who purchased goods from the Company.

21. INVENTORIES

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials	**129,109**	130,445	**55,862**	60,853
Work in progress	**174,537**	143,075	**77,367**	66,900
Finished goods	**284,455**	235,457	**50,476**	52,878
Spare parts and consumables	**41,603**	50,478	**37,492**	45,520
	629,704	559,455	**221,197**	226,151

At 31 December 2002, the carrying amount of inventories of the Group carried at net realisable value included in the above balance was approximately RMB13.8 million (2001: RMB8.6 million).

22. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, where payment in advance for customers is normally required. The credit periods to its customers are 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on invoice date, and net of provisions, is as follows:

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 90 days	**266,125**	238,195	**52,751**	57,429
91 days to 180 days	**53,109**	53,960	**12,751**	14,618
181 days to 365 days	**49,560**	72,625	**9,097**	13,393
1 to 2 years	**34,657**	48,666	**7,763**	10,548
Over 2 years	**2,745**	10,143	**416**	1,708
	406,196	423,589	**82,778**	97,696

Included in the bills receivable balance as at 31 December 2002 are RMB86,933,000 (2001: Nil) of discounted bills receivables, net of provisions, and such discounted bills receivable arose from the Group's financial operations.

At 31 December 2002, certain of the Group's bills receivable of RMB2,431,000 (2001: Nil) were pledged to secure certain short term bank loans granted to the Group (note 32(a)).

23. OTHER RECEIVABLES

		Group		Company	
	Notes	**2002**	2001	**2002**	2001
		RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments, deposits and other debtors		**101,970**	98,622	**37,517**	40,219
Prepaid income tax		**4,659**	3,757	**–**	–
Due from related companies	24	**4,816**	3,899	**3,315**	3,315
Due from the Holding	25	**40,758**	21,753	**35,512**	21,521
		152,203	128,031	**76,344**	65,055

24. DUE FROM/TO RELATED COMPANIES

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

25. DUE FROM/TO THE HOLDING

Except for an aggregate balance of approximately RMB19.8 million (2001: RMB5.7 million) due to the Holding which bears interest at 6.11% to 6.435% per annum (2001: 6.435% per annum), all of the other balances due from/to the Holding are interest-free. All of the balances with the Holding are unsecured and have no fixed terms of repayment.

26. SHORT TERM INVESTMENTS

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Listed government bonds,				
at market value – Mainland China	**50,000**	50,000	**50,000**	50,000
Listed equity securities, at market value:				
Hong Kong	**2,917**	–	**–**	–
Mainland China	**1,586**	2,264	**–**	–
Other investment, at market value (Note)	**30,000**	30,000	**30,000**	30,000
	84,503	82,264	**80,000**	80,000

Note: The Company renewed the asset management agreement with the same investment management company whereby the latter agreed to invest an amount of RMB30,000,000, on behalf of the Company, on short term investment portfolios comprising listed securities, government bonds and various funds in the PRC. The renewed agreement was for a period of 12 months, from 23 July 2002 to 22 July 2003.

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
	Notes	**2002**	2001	**2002**	2001
		RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances		**254,367**	266,604	**132,467**	126,416
Time deposits		**735,568**	646,750	**445,728**	531,614
		989,935	913,354	**578,195**	658,030
Less: Pledged time deposits:					
Pledged for bills payable	28	**(152,568)**	(23,302)	**(12,269)**	(16,446)
Pledged for bank facilities					
granted to a subsidiary	38(d)	**–**	–	**(92,829)**	–
Pledged for bank loans	32(a)	**(5,301)**	–	**–**	–
Pledged for guarantees	38(a)	**(16,210)**	–	**–**	–
Cash and cash equivalents		**815,856**	890,052	**473,097**	641,584

28. TRADE AND BILLS PAYABLES

An aged analysis of trade and bills payables as at the balance sheet date, based on invoice date, is as follows:

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 90 days	**345,978**	207,128	**156,401**	129,102
91 days to 180 days	**74,773**	74,711	**30,560**	40,673
181 days to 365 days	**30,357**	38,860	**13,914**	25,490
1 to 2 years	**18,196**	30,875	**9,245**	14,366
Over 2 years	**24,785**	21,680	**13,087**	11,801
	494,089	373,254	**223,207**	221,432

28. TRADE AND BILLS PAYABLES *(continued)*

The Group's bills payables amounting to approximately RMB56,950,000 (2001: RMB44,020,000) are secured by the pledge of certain of the Group's deposits amounting to approximately RMB152,568,000 (2001: RMB23,302,000).

The Company's bills payables amounting to approximately RMB20,000,000 (2001: RMB22,520,000) are secured by the pledge of certain deposits of the Company and a subsidiary of the Company, amounting to approximately RMB12,269,000 (2001: RMB16,446,000) and RMB20,000,000 (2001: Nil), respectively.

Included in trade and bills payables of the Group and the Company are trade payables of RMB13,829,000 (2001: Nil) and RMB10,539,000 (2001: Nil), respectively, due to an associate, which are repayable on similar credit terms to those offered by the associate to its major customers.

29. OTHER PAYABLES AND ACCRUALS

		Group		Company	
	Notes	**2002**	2001	**2002**	2001
		RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Accruals and other liabilities		**343,114**	253,411	**145,960**	127,485
Provision for product warranties	30	**5,202**	4,202	**2,202**	2,202
Due to related companies	24	**12,130**	14,612	**–**	–
Due to the Holding	25	**27,101**	7,894	**–**	–
		387,547	280,119	**148,162**	129,687

30. PROVISION FOR PRODUCT WARRANTIES

	Group	Company
	RMB'000	*RMB'000*
At beginning of year	4,202	2,202
Additional provision	6,416	3,037
Amounts utilised during the year	(5,416)	(3,037)
At 31 December 2002	5,202	2,202

The Group provides one-year warranties to its customers on certain of its tractors and components sold, under which faulty products are repaired or replaced. The amount of the provision for product warranties 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. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

31. CUSTOMERS DEPOSITS

Included in the customers deposits of the Group are deposits placed by an associate of approximately RMB43,316,000 (2001: Nil); the Holding of approximately RMB12,333,000 (2001: Nil); and related companies of approximately RMB16,890,000 (2001: Nil).

32. INTEREST-BEARING BANK AND OTHER LOANS

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank loans:				
Secured	**100,750**	74,420	**–**	–
Unsecured	**69,100**	153,140	**20,000**	25,000
	169,850	227,560	**20,000**	25,000
Unsecured other loans	**200**	29,500	**–**	–
	170,050	257,060	**20,000**	25,000

All of the above bank loans and other loans of the Group and the Company as at 31 December 2002 and 31 December 2001 are repayable within one year.

(a) At 31 December 2002, certain of the Group's bank loans of RMB93,750,000 (2001: RMB74,420,000), RMB4,820,000 (2001: Nil) and RMB2,180,000 (2001: Nil) are secured by the Group's certain buildings and machinery with an aggregate net carrying value of approximately RMB39,990,000 (2001: RMB34,881,000), time deposits of approximately RMB5,301,000 (2001: Nil) and bills receivable of approximately RMB2,431,000 (2001: Nil), respectively.

The Holding has guaranteed certain of the Group's bank and other loans up to RMB23,900,000 and RMB200,000, respectively (2001: RMB34,700,000 and RMB200,000, respectively) as at the balance sheet date.

In addition, as at 31 December 2002, certain of the Group's bank loans of RMB18,500,000 are guaranteed by an independent third party. Further details of the guarantee are set out in note 38(b) to the financial statements.

(b) Other loans are unsecured and bear interest at a rate of 7% (2001: at rates ranging from 5.85% to 8.4%) per annum.

33. DEFERRED TAX

	Group and Company	
	2002	2001
	RMB'000	*RMB'000*
At beginning of year	**1,234**	3,702
Credit for the year (note 10)	**(1,234)**	(2,468)
At 31 December	**–**	1,234

The deferred tax of the Group and the Company was 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 received in 1997.

34. SHARE CAPITAL

	Company	
	2002	2001
	RMB'000	*RMB'000*
Registered, issued and fully paid:		
State-owned legal person shares of RMB1.00 each	**450,000**	450,000
H shares of RMB1.00 each	**335,000**	335,000
	785,000	785,000

There was no movement in the share capital during the years ended 31 December 2002 and 2001.

35. RESERVES

Group

	Share premium	**Statutory surplus reserve**	**Statutory public welfare fund**	**Reserve fund**	**Enterprise expansion fund**	**Retained Profits/ (Accumulated losses)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2001	1,378,840	58,169	58,169	564	320	(54,931)	1,441,131
Net loss for the year	–	–	–	–	–	(117,799)	(117,799)
Transfer from/(to) reserves	–	409	409	270	270	(1,358)	–
At 31 December 2001 and beginning of year	1,378,840	58,578	58,578	834	590	(174,088)	1,323,332
Net loss for the year	–	–	–	–	–	(59,490)	(59,490)
Transfer from/(to) reserves	–	877	877	338	338	(2,430)	–
At 31 December 2002	1,378,840	59,455	59,455	1,172	928	(236,008)	1,263,842
Reserves retained by:							
Company and subsidiaries	1,378,840	59,455	59,455	1,172	928	(201,837)	1,298,013
Jointly-controlled entity	–	–	–	–	–	3,669	3,669
Associates	–	–	–	–	–	(37,840)	(37,840)
31 December 2002	1,378,840	59,455	59,455	1,172	928	(236,008)	1,263,842
Company and subsidiaries	1,378,840	58,578	58,578	834	590	(141,377)	1,356,043
Jointly-controlled entity	–	–	–	–	–	9,289	9,289
Associates	–	–	–	–	–	(42,000)	(42,000)
31 December 2001	1,378,840	58,578	58,578	834	590	(174,088)	1,323,332

Certain amounts of goodwill and negative goodwill arising on the acquisition of subsidiaries and a jointly-controlled entity remain eliminated against consolidated retained profits and credited to the capital reserve (balances at 31 December 2002 and 31 December 2001: Nil), respectively, as explained in notes 15 and 17 to the financial statements.

35. RESERVES *(continued)*

Company

	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2001	1,378,840	48,388	48,388	(46,050)	1,429,566
Net loss for the year	–	–	–	(115,922)	(115,922)
At 31 December 2001 and beginning of year	1,378,840	48,388	48,388	(161,972)	1,313,644
Net loss for the year	–	–	–	(36,567)	(36,567)
At 31 December 2002	1,378,840	48,388	48,388	(198,539)	1,277,077

In accordance with the Company Law of the PRC and the Company's articles of association, the Company is required to appropriate 10% and 5% to 10% of its annual statutory profit after tax, as determined in accordance with PRC accounting standards and regulations, to a statutory surplus reserve ("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, PWF, reserve fund and enterprise expansion fund, as dealt with in the Group's financial statements, were RMB877,000 (2001: RMB409,000), RMB877,000 (2001: RMB409,000), RMB338,000 (2001: RMB270,000) and RMB338,000 (2001: RMB270,000), respectively. The appropriations to certain of the reserves are subject to approval by the board of directors of the respective subsidiaries, and SSAP 9 (revised) requires that appropriations subject to approval subsequent to balance sheet date should not be recognised in the balance sheet. However, appropriation subject to subsequent approval already recognised in the balance sheet has not been reversed because the amount thereof is immaterial.

As at 31 December 2002, the Group had no retained profits (2001: Nil) available for distribution by way of cash or in kind.

As at 31 December 2002, in accordance with the Company Law of the PRC, an amount of approximately RMB1.38 billion (2001: RMB1.38 billion) standing to the credit of the Company's share premium account was available for distribution by way of future capitalisation issues.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) SSAP 15 was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid, and interest received and paid are now included in cash flows from operating activities, dividends received are now included in cash flows from investing activities, and dividends paid are now included in cash flows from financing activities. The presentation of the 2001 comparative cash flow statement has been changed to accord with the new layout.

(b) Acquisition of a subsidiary

	Notes	**2002**	2001
		RMB'000	*RMB'000*
Net assets acquired:			
Fixed assets	13	**7,210**	–
Cash and bank balances		**7,454**	–
Loans receivable		**34,482**	–
Bills receivables		**396**	–
Prepaid income tax		**493**	–
Other receivables		**9,141**	–
Customers deposits		**(47,568)**	–
Other payables		**(8,156)**	–
		3,452	–
Negative goodwill on acquisition	15	**(2,614)**	–
		838	–
Satisfied by:			
Cash		**838**	–

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

	2002	2001
	RMB'000	*RMB'000*
Cash and bank balances acquired	**7,454**	–
Cash consideration	**(838)**	–
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	**6,616**	–

The above acquisition was related to the acquisition of FTGF, further details of which are set out in note 41(c) to the financial statements.

Since its acquisition, FTGF contributed approximately RMB7,528,000 to the Group's other revenue and gains for the year ended 31 December 2002. The post-acquisition profit after tax and before minority interests for the year ended 31 December 2002 contributed by FTGF amounted to approximately RMB5,017,000.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Major non-cash transaction

The capital contributions made by the minority shareholders of a subsidiary of the Group during the year ended 31 December 2002 were in the form of non-current assets valued at RMB9,786,000, non-cash current assets valued at RMB52,232,000, and current liabilities of RMB56,426,000.

37. 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 27% (2001: 28%) of the total annual wages of its employees to the aforesaid retirement and pension fund scheme, out of which the pensions of the Company's retired employees are paid.

38. CONTINGENT LIABILITIES

(a) As at 31 December 2002, FTGF, a subsidiary, had given guarantees to the extent of RMB12,485,000 to a bank for securing certain performance bonds issued by that bank on behalf of Yituo-Made, a company which the Holding owned a 50% equity interest (2001: Nil). Such guarantees were pledged by the Group's certain time deposits of RMB16,210,000. Yituo-Made had placed deposits of RMB12,485,000 with FTGF for securing the aforesaid guarantee provided by FTGF to the bank. As at the approval date of these financial statements, RMB9,275,000 of the aforesaid guarantees were released.

(b) As at 31 December 2002, FTQT, a subsidiary, had given joint and several guarantees to the extent aggregating RMB21.3 million to a bank for securing various bank loans aggregating to the same amount granted to an independent third party. Such contingent liabilities were not provided for in the Group's financial statements. The aforesaid independent third party had also given joint and several guarantee to the bank to the extent aggregating RMB18.5 million for securing various bank loans aggregating to the same amount granted to FTQT.

(c) As at 31 December 2002, the Company had given corporate guarantees of approximately RMB115 million to FTGF (2001: RMB151.3 million to certain banks and FTGF) in connection with facilities granted to certain subsidiaries. The facilities were utilised to the extent of approximately RMB115 million (2001: RMB96.3 million). Such contingent liabilities were not provided in the Company's financial statements.

(d) As at 31 December 2002, the Company's time deposits of approximately RMB92,829,000 were pledged to certain banks for securing bank facilities granted to a subsidiary. The facilities were utilised to the extent of RMB50,000,000. Such contingent liabilities were not provided for in the Company's financial statements.

Save as aforesaid, neither the Group, nor the Company had any significant contingent liabilities.

39. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Company leases certain of its buildings and machinery (note 13 to the financial statements) under operating lease arrangements. Leases for buildings and machinery are negotiated for terms ranging from one to five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2002, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group and Company	
	2002	2001
	RMB'000	*RMB'000*
Within one year	**4,415**	3,111
In the second to fifth years, inclusive	**12,491**	10,560
	16,906	13,671

(b) As leasee

The Group leases certain land, buildings, plant and machinery under operating lease arrangements. Leases for land and buildings are negotiated for terms ranging from 1 to 50 years, and those for plant and machinery are for terms of one year with renewal options.

At 31 December 2002, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		**Company**	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**13,299**	12,299	**10,000**	10,000
In the second to fifth years, inclusive	**30,562**	37,744	**21,740**	31,740
After five years	**229,839**	228,389	**196,795**	201,794
	273,700	278,432	**228,535**	243,534

40. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 39(b) above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted, but not provided for:				
Purchase of plant and machinery	**25,529**	19,241	**22,494**	17,213
Purchase of equity interest in an associate	**–**	12,415	**–**	–
Purchase of a long term investment (Note)	**3,640**	–	**3,640**	–
	29,169	31,656	**26,134**	17,213
Authorised, but not contracted for:				
Purchase of plant and machinery	**147,793**	–	**147,793**	–
Additional capital contribution into subsidiaries	**–**	–	**165,007**	174,075
	147,793	–	**312,800**	174,075
	176,962	31,656	**338,934**	191,288

Note: On 6 December 2002, the Company entered into a joint venture agreement with the Holding and YLDC in respect of the joint establishment of Yituo (Luoyang) Fuel Jet Co., Ltd. ("YLFJ"), which will be engaged in the design, manufacturing and sale of fuel jet pumps and related components. The proposed registered capital of YLFJ amounts to RMB52,000,000, of which RMB39,000,000 will be contributed by the Holding in form of assets injection, representing 75% of the registered capital of YLFJ. YLDC and the Company will contribute RMB9,360,000 and RMB3,640,000 both in form of cash, representing 18% and 7% of the registered capital of YLFJ, respectively.

41. RELATED PARTY TRANSACTIONS

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

	Notes	**2002**	2001
		RMB'000	*RMB'000*
Sales of raw materials and components	(i)	**93,848**	100,766
Purchases of raw materials and components	(i)	**188,921**	172,151
Purchases of utilities	(ii)	**77,981**	57,054
Fees paid for welfare and support services	(iii)	**21,426**	38,507
Purchases of transportation services	(iii)	**4,409**	3,569
Research and development expenses paid	(iv)	**2,546**	2,308
Fees paid for the use of land	(v)	**5,000**	5,000
Fees paid for the use of trademark	(vi)	**2,546**	2,308
Rentals paid in respect of:			
Buildings	(vii)	**2,053**	2,143
Plant and machinery	(vii)	**3,060**	2,657
Fees paid for agency services	(viii)	**755**	989
Loans granted	(ix)	**107,500**	–
Bills discounted	(ix)	**86,261**	–
Interest income, inclusive of discounted bills charges	(ix)	**2,866**	–

41. RELATED PARTY TRANSACTIONS *(continued)*

The above transactions included the significant transactions carried out between the Group and its associate, YLDC, which is also a subsidiary of the Holding. Particulars of the significant transactions carried out between the Group and YLDC after the Group's acquisition of YLDC in March 2002 are summarised as follows:

	Notes	**2002** ***RMB'000***
Sales of raw materials and components	(i)	16,935
Purchases of raw materials and components	(i)	62,492
Loans granted	(ix)	15,400
Bills discounted	(ix)	22,550
Interest income, inclusive of discounted bills charges	(ix)	810

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

	Notes	**2002** ***RMB'000***	2001 *RMB'000*
Sales of raw materials and components	(i)	**4,734**	2,557
Purchases of raw materials and components	(i)	**16,830**	11,719
Sales of utilities	(ii)	**1,251**	1,529

Notes:

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

(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 a rate of 0.2% (2001: 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 (2001: 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 a rate of 0.2% (2001: 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.

(viii) Pursuant to relevant agreements, the pricing of agency fees is based on certain percentages of the invoiced value of goods sold through the agent.

(ix) The transactions are conducted with reference to the terms and rates stipulated by the PBOC.

41. RELATED PARTY TRANSACTIONS *(continued)*

(c) Acquisition of FTGF

As part of the restructuring of FTGF for the Group's subsequent acquisition thereof as described below, YBMC entered into an agreement on 1 June 2002 with the Holding whereby the Holding acquired the 18.08% equity interest of FTGF held by YBMC at a cash consideration of RMB19,890,000, which was based on cost. Prior to the aforesaid disposal, YBMC had received a refund of investment of RMB10,000,000 from FTGF. After such disposal, the Holding's equity interest in FTGF increased to 99.9% and YBMC held the remaining 0.1% equity interest in FTGF.

On 14 June 2002, the Company entered into an agreement with the Holding whereby the Company acquired the 99.9% equity interest of FTGF held by the Holding at a cash consideration of RMB838,000. The consideration paid was determined with reference to the net assets value of FTGF at 9 June 2002, which was after the repurchase of most of the capital in FTGF by the Holding and YBMC, and was appraised by an independent PRC valuer. Thereafter, the Company and YBMC held 99.9% and 0.1% equity interest in FTGF, respectively.

After the aforesaid acquisition, the Company and YBMC contributed additional capital, in form of cash, of RMB269,341,000 and RMB29,999,000 into FTGF, respectively, thereafter, FTGF's capital increased into RMB300 million, and the Company and YBMC held equity interests of 90% and 10% in FTGF, respectively.

On 20 June 2002, the Company entered into various agreements with the Holding, First Tractor International Economic Trade Limited ("FTIET", a wholly-owned subsidiary of the Holding), YLDC and an independent third party, whereby the Company sold 1%, 1%, 7% and 1.33% equity interests of FTGF to the Holding, FTIET, YLDC and the independent third party, respectively. The consideration received from the Holding, FTIET, YLDC and the independent third party are RMB3 million, RMB3 million, RMB21 million and RMB4 million, respectively. Thereafter, the Company held 79.67% equity interest of FTGF, while the remaining 10%, 1%, 1%, 7% and 1.33% are held by YBMC, the Holding, FTIET, YLDC and the independent third party, respectively. The aforesaid disposal of certain equity interest in FTGF by the Company was attributable to the notice from the PBOC which required FTGF to have a minimum of five shareholders.

(d) At the balance sheet date, the Holding guaranteed certain bank loans and other loans made to the Group up to RMB23.9 million (2001: RMB34.7 million) and RMB0.2 million (2001: RMB0.2 million), respectively, as further detailed in note 32(a) to the financial statements.

(e) During the year, FTGF had provided guarantees to an extent of RMB12,485,000 to a bank for securing certain performance bonds issued on behalf of Yituo-Made. Further details of the guarantees are disclosed in note 38(a) to the financial statements.

(f) Further details of the balances with related parties are set out in notes 20, 24, 25, 28 and 31 to the financial statements.

42. DESIGNATED DEPOSITS AND DESIGNATED LOANS

As at 31 December 2002, the Holding had placed a designated deposit of RMB1.5 million in FTGF for lending to a designated party.

As at 31 December 2002, an independent third party had placed a designated deposit of RMB2 million in FTGF for lending to the Holding.

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

43. PLEDGE OF ASSETS

Details of the Group's bills payable and bank loans, and of a performance bond issued by a bank on behalf of a related company, which are secured by assets of the Group, are included in notes 28, 32 and 38(a), respectively, to the financial statements.

44. POST BALANCE SHEET EVENT

The directors are currently in process of making appropriate disclosure and obtaining independent shareholders' approval regarding the financial services transactions conducted between FTGF and the Holding group during the year, further details of such financial services transactions are set out in note 41 to the financial statements.

In addition, the directors are currently in process of negotiation with the Holding for a financial service agreement pursuant to which FTGF will agree with the Holding to provide financial services to the Holding in the coming three years and the completion of the agreement will be subject to, inter alia, independent shareholders' approval and other procedures as required under the Listing Rules.

45. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 April 2003.