

REPORT OF THE INTERNATIONAL AUDITORS



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 41 to 108 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

40

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 2003 and of the profit 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

17 April 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2003

	Notes	2003 RMB'000	2002 RMB'000
TURNOVER	5	3,277,297	2,300,223
Cost of sales		(2,912,313)	(2,034,741)
Gross profit		364,984	265,482
Other revenue and gains	5	109,814	93,115
Selling and distribution costs		(126,616)	(114,341)
Administrative expenses		(237,211)	(205,735)
Other operating expenses		(55,885)	(68,017)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	6	55,086	(29,496)
Finance costs	7	(9,770)	(16,546)
Share of profits and losses of:			
Jointly-controlled entity		2,506	2,162
Associates		8,444	8,178
Negative goodwill on acquisition of an associate recognised as income during the year	18	606	606
PROFIT/(LOSS) BEFORE TAX		56,872	(35,096)
Tax	10	(23,847)	(16,776)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		33,025	(51,872)
Minority interests		(16,697)	(7,618)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	16,328	(59,490)
EARNINGS/(LOSS) PER SHARE - Basic	12	2.08 cents	(7.58) cents

CONSOLIDATED BALANCE SHEET

31 December 2003

	<i>Notes</i>	2003 RMB'000	2002 RMB'000
NON-CURRENT ASSETS			
Fixed assets	13	776,026	787,407
Construction in progress	14	68,730	74,299
Negative goodwill	15	(1,992)	(2,227)
Interest in a jointly-controlled entity	17	25,466	23,768
Interests in associates	18	109,809	20,065
Long term investments	19	65,105	59,728
Loans receivable	20	40,915	5,792
		1,084,059	968,832
CURRENT ASSETS			
Inventories	21	773,847	629,704
Trade and bills receivables	22	410,611	319,263
Loans receivable	20	189,699	103,015
Bills discounted receivable	23	155,390	86,933
Other receivables	24	238,927	152,203
Short term investments	27	6,955	84,503
Pledged deposits	28	120,157	174,079
Cash and cash equivalents	28	680,427	815,856
		2,576,013	2,365,556
CURRENT LIABILITIES			
Trade and bills payables	29	683,964	494,089
Tax payable		3,308	6,376
Other payables and accruals	30	355,197	387,547
Customer deposits	32	357,387	122,259
Interest-bearing bank and other loans	33	65,297	170,050
		1,465,153	1,180,321
NET CURRENT ASSETS		1,110,860	1,185,235
TOTAL ASSETS LESS CURRENT LIABILITIES		2,194,919	2,154,067
MINORITY INTERESTS		129,749	105,225
		2,065,170	2,048,842

CONSOLIDATED BALANCE SHEET *(continued)*

31 December 2003

	Notes	2003 RMB'000	2002 RMB'000
CAPITAL AND RESERVES			
Issued capital	35	785,000	785,000
Reserves	36	1,280,170	1,263,842
		<u>2,065,170</u>	<u>2,048,842</u>

Liu Da Gong
Director

Shao Hai Chen
Director

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2003

	<i>Note</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Total equity at 1 January		2,048,842	2,108,332
Net profit/(loss) for the year attributable to shareholders	36	<u>16,328</u>	<u>(59,490)</u>
Total equity at 31 December		<u>2,065,170</u>	<u>2,048,842</u>

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2003

	Notes	2003 RMB'000	2002 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		56,872	(35,096)
Adjustments for:			
Finance costs	7	9,770	16,546
Share of profit of a jointly-controlled entity		(2,506)	(2,162)
Share of profits and losses of associates		(8,444)	(8,178)
Interest income	6	(24,222)	(22,003)
Loss on disposal of fixed assets	6	14,727	156
Loss on partial disposal of a subsidiary	6	—	18
Gain on disposals of subsidiaries	5, 6	(41,000)	—
Gain on disposal of an associate	5, 6	(3,600)	—
Depreciation	6	99,801	100,286
Impairment of construction in progress	6	6,405	—
Impairment/(reversal of impairment) of fixed assets, net	6	(11,800)	10,000
Negative goodwill on acquisition of a subsidiary recognised as income during the year	5, 6	(235)	(117)
Negative goodwill on acquisition of an associate recognised as income during the year	18	(606)	(606)
Provision for impairment of long term unlisted investments	6	—	2,123
Dividend income from long term unlisted investments	5, 6	(1,602)	(1,061)
Gain on disposal of long term unlisted investments	5, 6	(50)	—
Gain on disposal of short term listed investments	5, 6	(14)	(1,251)
Provision for bad and doubtful debts, net	6	271	26,847
Provision for other receivable	6	25,000	—
Provision for loans receivable	6	4,383	825
Provision for obsolete inventories	6	3,308	5,026
Unrealised loss on changes in fair values of short term listed investments	6	—	1,521
Operating profit before working capital changes		126,458	92,874
Increase in inventories		(187,234)	(29,440)
Increase in loans receivable		(126,190)	(75,150)
(Increase)/decrease in trade and bills receivables		(99,333)	83,118
Increase in bills discounted receivable		(68,457)	(86,537)
(Increase)/decrease in prepayments, deposits and other debtors		(210,391)	6,551
Decrease/(increase) in amounts due from related companies		641	(917)
Decrease/(increase) in amount due from the Holding		26,850	(19,005)
Decrease/(increase) in short term investments		77,562	(2,509)
Increase in trade and bills payables		242,195	100,219
Increase in customer deposits		235,128	74,691
Increase in accruals and other liabilities		32,841	61,912
Increase in provision for product warranties		2,300	1,000
Decrease in amounts due to related companies		(12,130)	(2,482)
(Decrease)/increase in amount due to the Holding		(18,643)	5,032
Cash generated from operations		21,597	209,357

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

Year ended 31 December 2003

	<i>Notes</i>	2003 RMB'000	2002 RMB'000
Cash generated from operations		21,597	209,357
Interest received		24,222	22,003
Interest paid		(9,770)	(16,546)
Income tax paid		(18,397)	(12,888)
		<hr/>	<hr/>
Net cash inflow from operating activities		17,652	201,926
 CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend income from long term unlisted investments		1,602	1,061
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		(131,182)	(99,442)
Proceeds from disposal of fixed assets		20,684	5,180
Purchases of long term investments		(9,020)	(243)
Proceeds from disposals of long term investments		450	30,000
Investments in associates		(82,092)	(15,905)
Disposal of an associate		3,600	—
Acquisition of a subsidiary	37(a)	—	6,616
Disposals of subsidiaries	37(b)	(32,786)	—
Increase in cash deposits in the People's Bank of China		(27,760)	(16,846)
Decrease in time deposits		202,514	118,310
Decrease/(increase) in pledged deposits		53,922	(150,777)
		<hr/>	<hr/>
Net cash outflow from investing activities		(68)	(111,328)

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

Year ended 31 December 2003

	<i>Notes</i>	2003 RMB'000	2002 <i>RMB'000</i>
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		96,847	340,550
Repayment of bank and other loans		(83,070)	(429,560)
Dividends paid to minority shareholders		(2,460)	(11,625)
Contribution from minority shareholders		10,424	6,305
Proceeds from partial disposal of a subsidiary		—	31,000
		<hr/>	<hr/>
Net cash inflow/(outflow) from financing activities		21,741	(63,330)
		<hr/>	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		345,669	318,401
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		384,994	345,669
		<hr/>	<hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	28	247,404	254,367
Non-pledged time deposits with original maturity of less than three months when acquired	28	137,590	91,302
		<hr/>	<hr/>
		384,994	345,669
		<hr/>	<hr/>

BALANCE SHEET

31 December 2003

	Notes	2003 RMB'000	2002 RMB'000
NON-CURRENT ASSETS			
Fixed assets	13	552,151	572,341
Construction in progress	14	48,153	60,426
Interests in subsidiaries	16	730,231	704,754
Investment in a jointly-controlled entity	17	25,000	25,000
Investments in associates	18	79,960	—
Long term investments	19	61,100	53,180
		1,496,595	1,415,701
CURRENT ASSETS			
Inventories	21	323,914	221,197
Trade and bills receivables	22	101,964	82,778
Other receivables	24	137,550	76,344
Short term investments	27	—	80,000
Pledged deposits	28	87,579	105,098
Cash and cash equivalents	28	381,955	473,097
		1,032,962	1,038,514
CURRENT LIABILITIES			
Trade and bills payables	29	387,264	223,207
Tax payable		784	769
Other payables and accruals	30	169,043	148,162
Interest-bearing bank loans	33	—	20,000
		557,091	392,138
NET CURRENT ASSETS		475,871	646,376
TOTAL ASSETS LESS CURRENT LIABILITIES		1,972,466	2,062,077
		1,972,466	2,062,077
CAPITAL AND RESERVES			
Issued capital	35	785,000	785,000
Reserves	36	1,187,466	1,277,077
		1,972,466	2,062,077

Liu Da Gong
Director

Shao Hai Chen
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2003

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 Yituo Group Corporation Limited (the "Holding"), which is established in the PRC.

2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

SSAP 12 (Revised): "Income taxes" is effective for the first time for the current year's financial statements.

This SSAP prescribes new accounting measurements and disclosure practices. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These disclosures are detailed in notes 10 and 34 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year. Further details are included in the accounting policy for deferred tax in note 3 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

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 2003. 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 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.

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

Joint venture companies *(continued)*

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

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

Associates *(continued)*

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 a jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, 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 the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, 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.

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

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.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, negative goodwill arising on acquisitions was credited to the consolidated retained profits in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such negative goodwill, to remain credited to the consolidated retained profits. Negative goodwill on acquisitions subsequent to the adoption of the SSAP 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

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

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 right	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.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

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

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.

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.

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

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

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

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 shareholders' 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.

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.

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

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 an 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.

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.

Provisions are made against loans receivable in accordance with guidelines on the loan classification system issued by the People's Bank of China (the "PBOC").

General provisions are made based on 1% of the gross loans receivable balance outstanding as at the consolidated balance sheet date.

Specific provisions are made for loans when their condition has worsened and they are reclassified as special mention, substandard, doubtful and loss loans. A specific provision of 2% to 100% is applied to the loans receivable balance classified as special mention, substandard, doubtful and loss.

In the opinion of the directors, the above loans receivable provisioning policies are also appropriate for these financial statements prepared under accounting principles generally accepted in Hong Kong.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

4. SEGMENT INFORMATION

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

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products 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, relevant 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

4. SEGMENT INFORMATION (continued)

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	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	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	2,014,219	1,475,760	886,514	583,190	263,099	198,078	109,036	31,325	—	—	4,429	11,870	—	—	3,277,297	2,300,223
Intersegment revenue	22,366	22,102	—	—	27,585	27,758	—	—	7,310	2,393	—	—	(57,261)	(52,253)	—	—
Other revenue and gains	—	—	—	—	—	—	—	—	20,737	7,528	—	—	—	—	20,737	7,528
Total	2,036,585	1,497,862	886,514	583,190	290,684	225,836	109,036	31,325	28,047	9,921	4,429	11,870	(57,261)	(52,253)	3,298,034	2,307,751
Segment results	(56,368)	(87,922)	62,729	48,550	3,936	5,285	(2,780)	(19,920)	15,560	5,017	2,879	(493)	—	—	25,956	(49,483)
Interest, dividend, investment income and negative goodwill recognised as income															9,530	23,649
Gain on disposals of subsidiaries															41,000	—
Gain on disposal of an associate															3,600	—
Unallocated expenses															(25,000)	(3,662)
Profit/(loss) from operating activities															55,086	(29,496)
Finance costs															(9,770)	(16,546)
Share of profits and losses of:																
Jointly-controlled entity	2,506	2,162	—	—	—	—	—	—	—	—	—	—	—	—	2,506	2,162
Associates	—	—	—	—	—	—	—	—	—	—	8,444	8,178	—	—	8,444	8,178
Negative goodwill on acquisition of an associate recognised as income during the year	—	—	—	—	—	—	—	—	—	—	606	606	—	—	606	606
Profit/(loss) before tax															56,872	(35,096)
Tax															(23,847)	(16,776)
Profit/(loss) before minority interests															33,025	(51,872)
Minority interests															(16,697)	(7,618)
Net profit/(loss) from ordinary activities attributable to shareholders															16,328	(59,490)

NOTES TO FINANCIAL STATEMENTS

31 December 2003

4. SEGMENT INFORMATION *(continued)*

Group

	Tractors		Road machinery		Construction machinery		Harvesting machinery		Financial operations		Others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	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	1,928,442	2,114,795	760,138	624,536	216,067	168,350	97,770	69,679	836,600	576,590	72,368	71,280	(501,656)	(481,338)	3,409,729	3,143,892
Interest in a jointly-controlled entity	25,466	23,768	—	—	—	—	—	—	—	—	—	—	—	—	25,466	23,768
Interests in associates	—	—	—	—	—	—	—	—	—	—	109,809	20,065	—	—	109,809	20,065
Unallocated assets	—	—	—	—	—	—	—	—	—	—	—	—	—	—	115,068	146,663
Total assets															3,660,072	3,334,388
Segment liabilities	602,143	564,625	465,691	439,341	97,494	48,830	86,358	36,173	518,742	269,513	127,776	126,751	(501,656)	(481,338)	1,396,548	1,003,895
Unallocated liabilities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	68,605	176,426
Total liabilities															1,465,153	1,180,321
Other segment information:																
Capital expenditure	73,717	58,279	31,981	28,831	17,280	2,182	7,364	9,490	826	156	14	504	—	—	131,182	99,442
Depreciation	84,013	88,235	11,329	8,594	2,926	1,890	732	872	368	183	433	512	—	—	99,801	100,286
Impairment/(reversal of impairment) of fixed assets and construction in progress recognised in the profit and loss account	(5,395)	10,000	—	—	—	—	—	—	—	—	—	—	—	—	(5,395)	10,000
Other non-cash expenses:																
Provision/(reversal of provision) for bad and doubtful debts	(14,085)	17,134	13,237	12,113	1,119	(2,400)	—	—	—	—	—	—	—	—	271	26,847
Provision/(reversal of provision) for obsolete inventories	2,000	(624)	(1,082)	3,250	1,200	—	1,190	2,400	—	—	—	—	—	—	3,308	5,026
Provision for loans receivable	—	—	—	—	—	—	—	—	4,383	825	—	—	—	—	4,383	825

NOTES TO FINANCIAL STATEMENTS

31 December 2003

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:

	2003	2002
	RMB'000	RMB'000
Turnover		
Sale of goods	3,277,297	2,300,223
Other revenue		
Interest income	5,529	14,620
Interest income from financial operations	18,693	7,383
Profit from sundry sales	15,066	16,997
Rental income	4,895	3,254
Trademark licence fee	—	9,753
Investment income from short term listed investments	2,100	6,600
Dividend income from long term unlisted investments	1,602	1,061
Others	17,030	32,079
	64,915	91,747
Gains		
Gain on disposals of subsidiaries	41,000	—
Gain on disposal of an associate	3,600	—
Gain on disposal of long term unlisted investments	50	—
Gain on disposal of short term listed investments	14	1,251
Negative goodwill recognised	235	117
	44,899	1,368
	109,814	93,115

NOTES TO FINANCIAL STATEMENTS

31 December 2003

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Notes	2003 RMB'000	2002 RMB'000
Cost of inventories sold		2,912,313	2,034,741
Depreciation	13	99,801	100,286
Impairment of construction in progress**	14	6,405	—
Impairment/(reversal of impairment) of fixed assets, net**	13	(11,800)	10,000
Staff costs (excluding directors' and supervisors' remuneration - note 8):			
Wages and salaries		321,312	245,512
Pension scheme contributions***		52,496	50,658
		373,808	296,170
Minimum lease payments under operating lease rentals:			
Land and buildings		13,299	13,418
Plant and machinery		—	2,620
		13,299	16,038
Research and development costs		18,954	11,930
Auditors' remuneration		3,200	3,000
Provision for bad and doubtful debts, net		271	26,847
Provision for other receivable		25,000	—
Provision for loans receivable		4,383	825
Interest expense from financial operations		2,107	521
Provision for obsolete inventories, net		3,308	5,026
Provision for impairment of long term unlisted investments	19	—	2,123
Loss on disposal of fixed assets		14,727	156
Loss on partial disposal of a subsidiary		—	18
Unrealised loss on changes in fair values of short term listed investments		—	1,521
Gain on disposals of subsidiaries*		(41,000)	—
Gain on disposal of an associate*		(3,600)	—
Exchange gains, net		(790)	(1,094)
Investment income from short term listed investments		(2,100)	(6,600)
Gain on disposal of short term listed investments		(14)	(1,251)
Dividend income from long term unlisted investments		(1,602)	(1,061)
Gain on disposal of long term unlisted investments		(50)	—
Interest income		(5,529)	(14,620)
Interest income from financial operations		(18,693)	(7,383)
Negative goodwill on acquisition of a subsidiary recognised as income during the year*	15	(235)	(117)
Net rental income		(4,895)	(3,254)

* The gains on disposals of subsidiaries and an associate, and the movements in negative goodwill on acquisition of a subsidiary recognised in the profit and loss account for the year are included in "Other revenue and gains" on the face of the consolidated profit and loss account.

** The impairment/(reversal of 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.

*** At 31 December 2003, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2002: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2003

7. FINANCE COSTS

	Group	
	2003	2002
	RMB'000	RMB'000
Interest on bank and other loans wholly repayable within five years	9,770	16,546
Less: Interest capitalised	—	—
	<u>9,770</u>	<u>16,546</u>

8. REMUNERATION OF DIRECTORS AND SUPERVISORS

The directors' and supervisors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Group	
	2003	2002
	RMB'000	RMB'000
Fees	—	—
Other emoluments:		
Salaries, allowances and benefits in kind	530	551
Performance-related bonuses	265	—
Pension scheme contributions	207	149
	<u>1,002</u>	<u>700</u>
	<u>1,002</u>	<u>700</u>

There was no remuneration payable to the independent non-executive directors for their services rendered to the Company during the year (2002: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2003

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

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

	Number of directors and supervisors	
	2003	2002
Nil to HK\$1,000,000	<u>20</u>	<u>22</u>

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

9. FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration of the five (2002: Nil) non-director, highest paid employees for the year are as follows:

	Group	
	2003 RMB'000	2002 RMB'000
Salaries, allowances and benefits in kind	192	—
Performance related bonuses	1,132	—
Pension scheme contributions	35	—
	<u>1,359</u>	<u>—</u>

The five highest paid employees for the year ended 31 December 2002 were all directors of the Company, details of whose remuneration are set out in note 8 above.

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2003	2002
Nil to HK\$1,000,000	<u>5</u>	<u>—</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2003

10. TAX

	2003	2002
	RMB'000	RMB'000
Group:		
PRC corporate income tax provided for the year	21,641	16,322
Deferred tax (note 34)	<u>—</u>	<u>(1,234)</u>
	21,641	15,088
Share of tax attributable to:		
Jointly-controlled entity	808	664
Associates	<u>1,398</u>	<u>1,024</u>
Total tax charge for the year	<u>23,847</u>	<u>16,776</u>

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 2003 and 2002.

The PRC corporate income tax for the Company and its subsidiaries is calculated at rates ranging from 12% to 33% (2002: 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. No provision for overseas profit tax has been made for the Group as there were no assessable profits for the year (2002: Nil).

The PRC corporate income tax of the associates and jointly-controlled entity is calculated at rates ranging from 15% to 33% (2002: 18% to 33%) on the respective company's assessable profits determined in accordance with the relevant PRC laws and regulations.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

10. TAX (continued)

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rate for the locations in which the Company and its subsidiaries, jointly-controlled entities and associates are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

Group

	2003		2002	
	RMB'000	%	RMB'000	%
Profit/(loss) before tax	<u>56,872</u>		<u>(35,096)</u>	
Tax at PRC statutory tax rate	18,768	33	(11,582)	33
Lower tax rate for specific provinces or local authority	(21,108)	(37)	(12,346)	35
Tax effect of unused tax losses not recognised	33,453	59	15,042	(43)
Income not subject to tax	(16,363)	(29)	(193)	1
Expenses not deductible for tax	10,111	18	28,954	(83)
Tax losses utilised from previous periods	<u>(1,014)</u>	<u>(2)</u>	<u>(3,099)</u>	<u>9</u>
Tax charge at the Group's effective rate	<u>23,847</u>	<u>42</u>	<u>16,776</u>	<u>(48)</u>

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

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was RMB89,611,000 (2002: RMB36,567,000).

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit from ordinary activities attributable to shareholders for the year of RMB16,328,000 (2002: net loss of RMB59,490,000), and the weighted average of 785,000,000 (2002: 785,000,000) ordinary shares in issue during the year.

No diluted earnings/(loss) per share amounts are presented as the Company does not have any dilutive potential ordinary shares in both years presented.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

13. FIXED ASSETS

Group	Land use right <i>RMB'000</i>	Buildings <i>RMB'000</i>	Plant, machinery and equipment <i>RMB'000</i>	Transportation vehicles and equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:					
At beginning of year	7,763	798,126	1,341,896	78,787	2,226,572
Additions	—	7,069	8,108	2,375	17,552
Transfer from construction in progress (note 14)	—	41,008	67,169	3,937	112,114
Reclassifications	—		444	(444)	—
Disposals	—	(23,968)	(66,398)	(4,989)	(95,355)
Arising from disposals of subsidiaries (note 37(b))	—	(59,404)	(121,202)	(3,016)	(183,622)
At 31 December 2003	<u>7,763</u>	<u>762,831</u>	<u>1,230,017</u>	<u>76,650</u>	<u>2,077,261</u>
Accumulated depreciation and impairment:					
At beginning of year	—	465,056	935,419	38,690	1,439,165
Depreciation provided during the year	155	25,232	70,684	3,730	99,801
Impairment during the year recognised in the profit and loss account	—	610	6,590	—	7,200
Write-back of impairment provision upon disposals	—	(3,500)	(15,500)	—	(19,000)
Reclassifications	—	—	396	(396)	—
Disposals	—	(10,638)	(46,947)	(2,359)	(59,944)
Arising from disposals of subsidiaries (note 37(b))	—	(53,065)	(111,858)	(1,064)	(165,987)
At 31 December 2003	<u>155</u>	<u>423,695</u>	<u>838,784</u>	<u>38,601</u>	<u>1,301,235</u>
Net book value:					
At 31 December 2003	<u>7,608</u>	<u>339,136</u>	<u>391,233</u>	<u>38,049</u>	<u>776,026</u>
At 31 December 2002	<u>7,763</u>	<u>333,070</u>	<u>406,477</u>	<u>40,097</u>	<u>787,407</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2003

13. FIXED ASSETS (continued)

Company	Buildings RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
Cost:				
At beginning of year	592,326	1,112,014	19,736	1,724,076
Additions	670	5,450	—	6,120
Transfer from construction in progress (note 14)	13,935	54,039	3,182	71,156
Disposals	<u>(23,266)</u>	<u>(57,025)</u>	<u>(2,997)</u>	<u>(83,288)</u>
At 31 December 2003	<u>583,665</u>	<u>1,114,478</u>	<u>19,921</u>	<u>1,718,064</u>
Accumulated depreciation and impairment:				
At beginning of year	359,475	780,638	11,622	1,151,735
Depreciation provided during the year	19,204	58,989	1,754	79,947
Impairment during the year recognised in the profit and loss account	610	6,590	—	7,200
Write-back of impairment provision upon disposals	(3,500)	(15,500)	—	(19,000)
Disposals	<u>(10,173)</u>	<u>(42,157)</u>	<u>(1,639)</u>	<u>(53,969)</u>
At 31 December 2003	<u>365,616</u>	<u>788,560</u>	<u>11,737</u>	<u>1,165,913</u>
Net book value:				
At 31 December 2003	<u>218,049</u>	<u>325,918</u>	<u>8,184</u>	<u>552,151</u>
At 31 December 2002	<u>232,851</u>	<u>331,376</u>	<u>8,114</u>	<u>572,341</u>

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 2003, certain of the Group's buildings and machinery with an aggregate net carrying value of approximately RMB27,779,000 (2002: RMB39,990,000) were pledged to secure certain short term bank loans granted to the Group (note 33(a)).

NOTES TO FINANCIAL STATEMENTS

31 December 2003

13. FIXED ASSETS *(continued)*

At 31 December 2002, certain of the Group's plant, machinery and equipment with cost of approximately RMB61,913,000 and accumulated depreciation and impairment of RMB54,735,000 were leased to third parties under operating leases. The depreciation of these fixed assets recognised in the consolidated profit and loss account in the prior year amounted to approximately RMB2,349,000. The operating leases were terminated during the year.

At 31 December 2003, certain of the Group's buildings with cost of approximately RMB36,456,000 (2002: RMB30,264,000) and accumulated depreciation and impairment of RMB30,865,000 (2002: RMB25,863,000) were leased to third parties under operating leases. The depreciation of these fixed assets recognised in the consolidated profit and loss account during 2003 amounted to approximately RMB1,000,000 (2002: RMB928,000).

During the year, the directors identified that certain building and machineries were 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.

The write-back of impairment during the year was mainly attributed to relevant fixed assets which have been disposed of during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

14. CONSTRUCTION IN PROGRESS

	Group 2003	Company 2003
	<i>RMB'000</i>	<i>RMB'000</i>
Cost:		
At beginning of year	83,350	67,795
Additions	113,630	65,288
Arising from disposals of subsidiaries (note 37(b))	(1,172)	—
Transfer to fixed assets (note 13)	<u>(112,114)</u>	<u>(71,156)</u>
At 31 December 2003	<u>83,694</u>	<u>61,927</u>
Accumulated impairment:		
At beginning of the year	9,051	7,369
Provided during the year recognised in the profit and loss account	6,405	6,405
Arising from disposals of subsidiaries (note 37(b))	<u>(492)</u>	<u>—</u>
At 31 December 2003	<u>14,964</u>	<u>13,774</u>
Net book value:		
At 31 December 2003	<u>68,730</u>	<u>48,153</u>
At 31 December 2002	<u>74,299</u>	<u>60,426</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2003

15. GOODWILL AND NEGATIVE GOODWILL

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

Group	Negative goodwill <i>RMB'000</i>
Cost:	
At beginning and end of year	2,344
Accumulated recognition as income:	
At beginning of year	117
Recognised as income during the year	235
At 31 December 2003	352
Net book value:	
At 31 December 2003	1,992
At 31 December 2002	2,227

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

15. GOODWILL AND NEGATIVE GOODWILL *(continued)*

The amounts of goodwill and negative goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries prior to the adoption of the SSAP 30 in 2001 are as follows:

	Group	
	Goodwill eliminated against consolidated retained profits	Negative goodwill credited to consolidated retained profits
	<i>RMB'000</i>	<i>RMB'000</i>
Cost:		
At beginning of year	39,844	11,111
Disposal of a subsidiary	—	(11,009)
	<hr/>	<hr/>
At 31 December 2003	39,844	102
	<hr/>	<hr/>
Accumulated impairment:		
At beginning and end of year	—	—
	<hr/>	<hr/>
Net amount:		
At 31 December 2003	39,844	102
	<hr/>	<hr/>
At 31 December 2002	39,844	11,111
	<hr/>	<hr/>

NOTES TO FINANCIAL STATEMENTS

31 December 2003

16. INTERESTS IN SUBSIDIARIES

Company	2003	2002
	RMB'000	RMB'000
Unlisted investments, at cost	479,747	500,831
Loans to subsidiaries	22,000	72,000
Deposits placed in a subsidiary	87,125	80,433
Loan from a subsidiary	(15,000)	—
Due from subsidiaries	240,368	220,391
Due to subsidiaries	(8,514)	(64,016)
	805,726	809,639
Provision for impairment	(53,695)	(58,380)
Provision for amounts due from subsidiaries	(21,800)	(46,505)
	730,231	704,754

The loan from a subsidiary is unsecured, bears interest at a rate of 5.04% per annum and is repayable within one year.

The loans to subsidiaries, which are granted in the form of designated deposits through a subsidiary of the Company (2002: through a bank in the PRC and a subsidiary of the Company), are unsecured, bear interest at a rate of 5.31% (2002: 5.31% to 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 subsidiaries aggregating RMB109,438,000 (2002: RMB87,460,000) 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

16. INTERESTS IN SUBSIDIARIES *(continued)*

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		Principal activities
			Direct	Indirect	
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
Luoyang Changlun Agricultural Machinery Company Limited [#] 洛陽長倫農業機械有限公司	PRC	RMB500,000	99	—	Trading of tractors
Yituo Shenyang Tractor Company Limited [#] 一拖瀋陽拖拉機有限公司	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\$7,154,300	—	53.2	Manufacture and sale of road construction machinery
Yituo (Luoyang) Harvester Co., Ltd. [#] 一拖(洛陽)收穫機械有限公司	PRC	RMB49,295,000	93.9	—	Manufacture and sale of agricultural harvesting machinery
Guizhou Zhenning Biological Industrial Co., Ltd. [#] 貴州鎮寧生物工業有限公司	PRC	RMB16,000,000	70	—	Manufacture and sale of biochemical products

NOTES TO FINANCIAL STATEMENTS

31 December 2003

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		Principal activities
			Direct	Indirect	
Luoyang Changhong High Technology Trading Company Limited ^{##} 洛陽高新長宏工貿有限公司	PRC	RMB3,000,000	91.7	8.2	Trading of tractors
China First Tractor Group Finance Company Limited ("FTGF") ^{##} - Note (i) 中國一拖集團財務有限責任公司	PRC	RMB300,000,000	79.7	11.1	Provision of financial services
Yituo (Luoyang) Building Construction Machinery Company Limited ("YLBC") ^{##} - Note (ii) 一拖(洛陽)建工機械有限公司	PRC	RMB18,303,000	35	—	Manufacture and sale of road rollers

During the year, the Group disposed of its entire equity interest in Yituo Qingjiang Tractor Company Limited* ("YTQT") (一拖清江拖拉機有限公司) and Yituo (Zhenjiang) Harvester Co., Ltd.* (一拖(鎮江)收穫機械有限公司), whereby the Group holds 51% and 61% equity interest, respectively, prior to the disposal. Further details of the disposals are included in note 37(b) to the financial statements.

Notes:

- (i) In accordance with the licence issued by 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.
 - (ii) 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.
- # Being limited liability companies established in the PRC
- † Being Sino-foreign joint venture companies established in the PRC

NOTES TO FINANCIAL STATEMENTS

31 December 2003

17. INTEREST/INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Unlisted shares, at cost	—	—	25,000	25,000
Share of net assets	25,466	23,768	—	—
	25,466	23,768	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 2003. 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			Principal activities
			Ownership interest	Voting power	Profit sharing	
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.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

18. INTERESTS/INVESTMENTS IN ASSOCIATES

	Group		Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Unlisted shares, at cost	—	—	121,960	42,000
Share of net assets	114,658	25,520	—	—
Negative goodwill on acquisition	(4,849)	(5,455)	—	—
	109,809	20,065	121,960	42,000
Provision for impairment	—	—	(42,000)	(42,000)
	109,809	20,065	79,960	—

The Group's loan to and deposits from associates are disclosed in notes 20 and 32 to the financial statements, respectively.

The Group's trade payable balances due to associates are disclosed in note 29 to the financial statements.

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

Group	Negative goodwill <i>RMB'000</i>
Cost:	
At beginning and end of year	<u>6,061</u>
Accumulated recognition as income:	
At beginning of year	606
Recognised as income during the year	<u>606</u>
At 31 December 2003	<u>1,212</u>
Net book value:	
At 31 December 2003	<u>4,849</u>
At 31 December 2002	<u>5,455</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2003

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		Principal activities
			Direct	Indirect	
Yituo (Luoyang) Diesel Co., Ltd. ("YLDC")	Corporate	PRC	—	22.53	Manufacture and sale of diesel engines
Luoyang First Motors Company Limited ("LFMC") #	Corporate	PRC	29.5	—	Design, manufacture and sale of vehicles and related accessories
Yituo (Luoyang) Engine Machinery Company Limited ("YEMC") ** - Note 一拖(洛陽)動力機械有限公司	Corporate	PRC	42	11.26	Manufacture and sale of engines and generators
Yituo (Luoyang) Casting & Forging Company Limited ("YLFC") ** 一拖(洛陽)鑄鍛有限公司	Corporate	PRC	25	—	Manufacture and sale of casting and forging products

During the year, the Group disposed of an associate, Shanghai Yitianxia Property Development Company Limited *, at a consideration of RMB3,600,000.

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.

Note: YLDC held a 50% equity interest in YEMC, while the remaining 42% and 8% equity interests in YEMC are held by the Company and certain third parties, respectively.

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

Associates newly incorporated during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

19. LONG TERM INVESTMENTS

	Group		Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Unlisted equity investments, at fair value	67,228	61,851	63,223	55,303
Provision for impairment	(2,123)	(2,123)	(2,123)	(2,123)
	<u>65,105</u>	<u>59,728</u>	<u>61,100</u>	<u>53,180</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2003

20. LOANS RECEIVABLE

	Notes	Gross amount RMB'000	Provision RMB'000	Net RMB'000
Group - 2003				
Loan to the Holding	(i)	124,000	3,720	120,280
Loan to an associate	(ii)	20,000	200	19,800
Loans to related companies	(iii)	19,680	390	19,290
Loans to customers	(iv)	77,150	5,906	71,244
		<u>240,830</u>	<u>10,216</u>	<u>230,614</u>
Portion classified as current assets		<u>(198,650)</u>	<u>(8,951)</u>	<u>(189,699)</u>
Long term portion		<u>42,180</u>	<u>1,265</u>	<u>40,915</u>
Group - 2002				
		Gross amount RMB'000	Provision RMB'000	Net RMB'000
Loan to the Holding		70,000	2,100	67,900
Loan to an associate		15,400	154	15,246
Loans to related companies		22,100	663	21,437
Loans to customers		7,140	2,916	4,224
		<u>114,640</u>	<u>5,833</u>	<u>108,807</u>
Portion classified as current assets		<u>(108,430)</u>	<u>(5,415)</u>	<u>(103,015)</u>
Long term portion		<u>6,210</u>	<u>418</u>	<u>5,792</u>

Notes:

- (i) The Holding has confirmed in writing that certain of its fixed assets with carrying amount of approximately RMB172 million is pledged 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 a 75% equity interest and the remaining 25% equity interest is held by a non-wholly-owned subsidiary of the Company.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

20. LOANS RECEIVABLE *(continued)*

- (iii) The loans to related companies represent the loans granted by FTGF to the companies which the Holding has significant influence therein.
- (iv) The loans to customers represent the loans granted to the specific customers as permitted by the PBOC.

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

	Group	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Repayable:		
Three months or less	37,430	13,090
One year or less but over three months	161,220	96,240
Five years or less but over one year	42,180	5,310
	240,830	114,640

21. INVENTORIES

	Group		Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Raw materials	123,583	129,109	51,450	55,862
Work in progress	41,125	174,537	38,321	77,367
Finished goods	253,810	284,455	130,923	50,476
Spare parts and consumables	355,329	41,603	103,220	37,492
	773,847	629,704	323,914	221,197

At 31 December 2003, the carrying amount of inventories of the Group carried at net realisable value included in the above balance was approximately RMB3.6 million (2002: RMB13.8 million).

At 31 December 2003, certain of the Group's inventories with a carrying value of approximately RMB8,967,000 (2002: Nil) were pledged to secure certain short term bank loans granted to the Group (note 33(a)).

NOTES TO FINANCIAL STATEMENTS

31 December 2003

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	
	2003	2002	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days	246,175	179,192	77,181	52,751
91 days to 180 days	62,159	53,109	16,115	12,751
181 days to 365 days	64,918	49,560	3,054	9,097
1 to 2 years	35,110	34,657	5,614	7,763
Over 2 years	2,249	2,745	—	416
	410,611	319,263	101,964	82,778

At 31 December 2003, certain of the Group's and the Company's bills receivables of RMB16,000,000 (2002: Nil) and RMB15,000,000 (2002: Nil) respectively were pledged for the issuance of bills payables.

At 31 December 2002, certain of the Group's bills receivable of RMB2,431,000 were pledged to secure certain short term bank loans granted to the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

23. BILLS DISCOUNTED RECEIVABLE

The bills discounted receivable arose from the Group's financial operation. Included in the bills discounted receivable (net of provisions) of the Group are approximately RMB82,190,000 (2002: RMB12,333,000) related to the Holding; approximately RMB32,561,000 (2002: RMB43,316,000) related to an associate; and approximately RMB495,000 (2002: RMB16,890,000) related to related companies.

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

	Group	
	2003	2002
	RMB'000	RMB'000
Maturing within:		
Three months or less	77,960	57,361
Six months or less but over three months	79,000	30,450
	<u>156,960</u>	<u>87,811</u>
Less: Provision for bills discounted receivable	<u>(1,570)</u>	<u>(878)</u>
	<u>155,390</u>	<u>86,933</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2003

24. OTHER RECEIVABLES

	Notes	Group		Company	
		2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Prepayments, deposits and other debtors - Note		220,844	101,970	123,642	37,517
Prepaid income tax		—	4,659	—	—
Due from related companies	25	4,175	4,816	—	3,315
Due from the Holding	26	13,908	40,758	13,908	35,512
		238,927	152,203	137,550	76,344

Note:

Included in other debtors was a gross amount of RMB50 million (2002: Nil) due from the branch of a securities company which represented the balance of government bond investment to be repaid to the Company and has been overdue for over 6 months at the date of approval of these financial statements. Based on independent legal advice, the directors are of the opinion that the Company should have valid legal claim against the securities company and its branch for the recovery of such investment balance, and the directors are taking all reasonable measures to recover the outstanding sum thereof. However, the directors consider it prudent to make a provision of RMB25 million (2002: Nil) against such outstanding balance of the investment and to account for the interest income on the investment under a cash receipt basis.

25. DUE FROM/TO RELATED COMPANIES

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

26. DUE FROM/TO THE HOLDING

During the current year, the balances due from/to the Holding are interest-free, unsecured and have no fixed terms of repayment. For the year ended 31 December 2002, except for an aggregate balance of approximately RMB19.8 million due to the Holding, which bore interest at 6.11% to 6.435% per annum, all of the other balances due to the Holdings were interest-free.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

27. SHORT TERM INVESTMENTS

	Group		Company	
	2003	2002	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Listed equity securities, at market value:				
Hong Kong	5,369	2,917	—	—
Mainland China	1,586	1,586	—	—
Other investment, at market value - Note (i)	—	30,000	—	30,000
Listed government bonds, at market value				
- Mainland China - Note (ii)	—	50,000	—	50,000
	6,955	84,503	—	80,000

Notes:

- (i) The Company renewed an asset management agreement in 2002 with a securities 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 and had expired during the current year.
- (ii) The investment in the listed government bonds as at 31 December 2002 matured in the current year. The investment balance to be repaid to the Company was classified as other debtors as at 31 December 2003. Further details of the investment are set out in note 24 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Notes	Group		Company	
		2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Cash and bank balances		247,404	254,367	21,851	132,467
Cash deposits in the PBOC - Note		44,606	16,846	—	—
Time deposits		508,574	718,722	447,683	445,728
		800,584	989,935	469,534	578,195
Less: Pledged time deposits:					
Pledged for bills payable	29	(74,113)	(152,568)	(60,929)	(12,269)
Pledged for banking facilities granted to a subsidiary	39(c)	—	—	—	(92,829)
Pledged for bank loans	33(a)	(13,233)	(5,301)	—	—
Pledged for guarantees	39(a)	(3,210)	(16,210)	—	—
Pledged for other banking facilities		(29,601)	—	(26,650)	—
Cash and cash equivalents		680,427	815,856	381,955	473,097

Note:

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

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

	Group	
	2003 RMB'000	2002 RMB'000
Maturing within:		
Three months or less	240,881	323,780
One year or less but over three months	267,693	394,942
	508,574	718,722

NOTES TO FINANCIAL STATEMENTS

31 December 2003

29. TRADE AND BILLS PAYABLES

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

	Group		Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Within 90 days	510,542	345,978	298,762	156,401
91 days to 180 days	72,179	74,773	21,408	30,560
181 days to 365 days	71,995	30,357	47,947	13,914
1 to 2 years	14,301	18,196	9,606	9,245
Over 2 years	14,947	24,785	9,541	13,087
	683,964	494,089	387,264	223,207

The Group's bills payables amounting to approximately RMB139,138,000 (2002: RMB56,950,000) are secured by the pledge of certain of the Group's deposits amounting to approximately RMB74,113,000 (2002: RMB152,568,000) and certain bills receivable of the Group amounting to RMB16,000,000 (2002: Nil).

The Company's bills payables amounting to approximately RMB87,573,000 (2002: RMB20,000,000) are secured by the pledge of certain deposits of the Company amounting to approximately RMB60,929,000 (2002: certain deposits of the Company of RMB12,269,000 and deposits of a subsidiary of the Company of RMB20,000,000), certain bills receivable of the Company amounting to RMB15,000,000 (2002: Nil) and the corporate guarantee provided by a subsidiary of the Company (2002: Nil).

Included in the trade and bills payables of the Group and the Company are trade payables to associates aggregating RMB59,432,000 (2002: RMB13,829,000) and RMB38,246,000 (2002: RMB10,539,000), respectively, which are repayable on similar credit terms to those offered by the associates to their major customers.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

30. OTHER PAYABLES AND ACCRUALS

		Group		Company	
	Notes	2003	2002	2003	2002
		RMB'000	RMB'000	RMB'000	RMB'000
Accruals and other liabilities		339,237	343,114	166,841	145,960
Provision for product warranties	31	7,502	5,202	2,202	2,202
Due to related companies	25	—	12,130	—	—
Due to the Holding	26	8,458	27,101	—	—
		355,197	387,547	169,043	148,162

31. PROVISION FOR PRODUCT WARRANTIES

	Group	Company
	RMB'000	RMB'000
At beginning of year	5,202	2,202
Additional provision	23,354	3,363
Amounts utilised during the year	(21,054)	(3,363)
At 31 December 2003	7,502	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 is revised where appropriate.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

32. CUSTOMER DEPOSITS

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Deposits from the Holding	42,880	12,333
Deposits from associates	181,373	43,316
Deposits from related companies	24,543	16,890
Deposits from customers	108,591	49,720
	357,387	122,259

The maturity profile of the Group's customer deposits at the balance sheet date is analysed by the remaining periods to their contractual maturity as follows:

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Repayable:		
On demand	329,695	90,208
Three months or less	—	—
One year or less but over three months	27,692	32,051
	357,387	122,259

NOTES TO FINANCIAL STATEMENTS

31 December 2003

33. INTEREST-BEARING BANK AND OTHER LOANS

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Bank loans:				
Secured	42,000	100,750	—	—
Unsecured	23,297	69,100	—	20,000
	<u>65,297</u>	<u>169,850</u>	<u>—</u>	<u>20,000</u>
Unsecured other loans	—	200	—	—
	<u>65,297</u>	<u>170,050</u>	<u>—</u>	<u>20,000</u>

All of the above bank loans and other loans of the Group and the Company as at 31 December 2003 and 31 December 2002 are repayable within one year.

- (a) Certain of the Group's bank loans aggregating RMB42,000,000 (2002: RMB100,750,000) are secured by:
- (i) the Group's certain buildings and machinery with an aggregate net carrying value of approximately RMB27,779,000 (2002: RMB39,990,000);
 - (ii) the Group's time deposits of approximately RMB13,233,000 (2002: RMB5,301,000); and
 - (iii) the Group's inventories of approximately RMB8,967,000 (2002: Nil).

In addition, the Group's bills receivable of approximately RMB2,431,000 were pledged to secure certain bank loans of the Group as at 31 December 2002.

As at 31 December 2002, the Holding had guaranteed certain of the Group's bank and other loans up to RMB23,900,000 and RMB200,000, respectively.

As at 31 December 2002, certain of the Group's bank loans of RMB18,500,000 was guaranteed by an independent third party.

- (b) Other loans as at 31 December 2002 were unsecured and bore interest at a rate of 7% per annum.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

34. DEFERRED TAX

The movement in deferred tax liabilities and assets during the year is as follows:

Deferred tax liabilities

Group	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Gross deferred tax liabilities		
At beginning of year	—	1,234
Deferred tax credited to the profit and loss account during the year	—	(1,234)
At 31 December	—	—

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.

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

Deferred tax assets

No gross deferred tax assets of the Group were recognised for the years ended 31 December 2003 and 2002.

The principal components of the Group's gross and net deferred tax assets not recognised in the financial statements are as follows:

Group	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Tax losses	57,691	31,607
Assets provision	14,208	31,547
Other deductible temporary differences	34,900	36,233
	106,799	99,387

NOTES TO FINANCIAL STATEMENTS

31 December 2003

34. DEFERRED TAX *(continued)*

Deferred tax assets have not been recognised in respect of the unused tax losses and other deductible temporary differences as they have arisen in companies that have been loss-making for some time and the recoverability of the deferred tax assets is uncertain. The unused tax losses will be available within five years in offsetting against future taxable profits of the companies in which the losses arose.

Temporary differences arising in connection with the equity accounting of interests in associates and jointly-controlled entity are insignificant.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

35. SHARE CAPITAL

	Company	
	2003	2002
	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
	<u>785,000</u>	<u>785,000</u>

There was no movement in the share capital during the years ended 31 December 2003 and 2002.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

36. RESERVES

Group

	Share premium account <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Reserve fund <i>RMB'000</i>	Enterprise expansion fund <i>RMB'000</i>	Retained profits/ (Accumulated losses) <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2002	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 and beginning of year	1,378,840	59,455	59,455	1,172	928	(236,008)	1,263,842
Net profit for the year	—	—	—	—	—	16,328	16,328
Transfer from/(to) reserves	—	2,244	3,294	587	587	(6,712)	—
At 31 December 2003	<u>1,378,840</u>	<u>61,699</u>	<u>62,749</u>	<u>1,759</u>	<u>1,515</u>	<u>(226,392)</u>	<u>1,280,170</u>
Reserves retained by:							
Company and subsidiaries	1,378,840	60,946	62,372	1,759	1,515	(200,441)	1,304,991
Jointly-controlled entity	—	—	—	—	—	5,367	5,367
Associates	—	753	377	—	—	(31,318)	(30,188)
31 December 2003	<u>1,378,840</u>	<u>61,699</u>	<u>62,749</u>	<u>1,759</u>	<u>1,515</u>	<u>(226,392)</u>	<u>1,280,170</u>
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	<u>1,378,840</u>	<u>59,455</u>	<u>59,455</u>	<u>1,172</u>	<u>928</u>	<u>(236,008)</u>	<u>1,263,842</u>

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 consolidated retained profits, respectively, as explained in notes 15 and 17 to the financial statements.

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries, which are registered in the PRC, has been transferred to reserve fund and enterprise expansion fund, which are restricted as to use.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

36. RESERVES (continued)

Company

	Share premium account <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2002	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 and beginning of year	1,378,840	48,388	48,388	(198,539)	1,277,077
Net loss for the year	—	—	—	(89,611)	(89,611)
At 31 December 2003	<u>1,378,840</u>	<u>48,388</u>	<u>48,388</u>	<u>(288,150)</u>	<u>1,187,466</u>

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 (the "SSR") and a statutory public welfare fund (the "PWF"), respectively. No allocation to the SSR is required after the balance of the Company's SSR reaches 50% of its registered capital.

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

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

No transfer to the SSR and the PWF of the Company have been proposed by the directors during the year.

At the balance sheet date, the Company had not utilised any of the 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 RMB1,491,000 (2002: RMB877,000), RMB2,917,000 (2002: RMB877,000), RMB587,000 (2002: RMB338,000) and RMB587,000 (2002: RMB338,000), respectively. The associate's appropriation to each of the SSR and PWF, as dealt with in the Group's financial statements were RMB753,000 and RMB377,000 respectively. The appropriations to certain of the reserves are subject to approval by the board of directors of the respective subsidiaries and an associate, 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

36. RESERVES (continued)

As at 31 December 2003, the Group had no retained profits (2002: Nil) available for distribution by way of cash or in kind.

As at 31 December 2003, in accordance with the Company Law of the PRC, an amount of approximately RMB1.38 billion (2002: RMB1.38 billion) standing to the credit of the Company's share premium account was available for distribution by way of future capitalisation issues.

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a subsidiary

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Net assets acquired:		
Fixed assets	—	7,210
Cash and bank balances	—	7,454
Loans receivable	—	34,482
Bills discounted receivable	—	396
Prepaid income tax	—	493
Other receivables	—	9,141
Customer deposits	—	(47,568)
Other payables	—	(8,156)
	—	3,452
Negative goodwill on acquisition	—	(2,614)
	—	838
Satisfied by:		
Cash	—	838

NOTES TO FINANCIAL STATEMENTS

31 December 2003

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(a) Acquisition of a subsidiary (continued)

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

	2003 RMB'000	2002 RMB'000
Cash and bank balances acquired	—	7,454
Cash consideration	—	(838)
	<hr/>	<hr/>
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	—	6,616
	<hr/>	<hr/>

The above acquisition was related to the acquisition of FTGF in 2002, further details of which are set out in note 42(l) 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(continued)

(b) Disposals of subsidiaries

	Notes	2003 RMB'000	2002 RMB'000
Net assets disposed of:			
Fixed assets	13	17,635	—
Construction in progress	14	680	—
Long term investments		3,243	—
Cash and bank balances		34,296	—
Trade and bills receivables		7,714	—
Prepayments, deposits and other debtors		66,517	—
Inventories		39,783	—
Interest-bearing bank and other loans		(118,530)	—
Trade and bills payables		(52,320)	—
Accruals and other liabilities		(36,718)	—
Tax payable		(1,653)	—
Minority interests		(137)	—
		<u>(39,490)</u>	<u>—</u>
Gain on disposals of subsidiaries	5, 6	41,000	—
		<u>1,510</u>	<u>—</u>
Satisfied by:			
Cash		1,510	—
		<u>1,510</u>	<u>—</u>

An analysis of the net outflow of cash and cash equivalents in respect of the disposals of subsidiaries is as follows:

	2003 RMB'000	2002 RMB'000
Cash consideration	1,510	—
Cash and bank balances disposed of	(34,296)	—
Net outflow of cash and cash equivalents in respect of the disposals of subsidiaries	<u>(32,786)</u>	<u>—</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2003

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(continued)

(b) Disposals of subsidiaries *(continued)*

The subsidiaries disposed of during the year contributed approximately RMB83 million to turnover and RMB6 million to the consolidated loss after tax and before minority interests for the year ended 31 December 2003.

(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.

38. RETIREMENT BENEFITS

The Company participates in the central retirement and pension fund scheme organised by the Luoyang Municipal Government and makes an annual contribution representing 25% (2002: 27%) 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.

39. CONTINGENT LIABILITIES

- (a) As at 31 December 2003, FTGF, a subsidiary, had given guarantees to the extent of RMB3,210,000 (2002: RMB12,485,000) to a bank for securing a performance bond issued by that bank on behalf of Yituo-Made (Luoyang) Wind Turbine Company Limited ("Yituo-Made"), a company which the Holding owned a 50% equity interest. Such guarantees were pledged by the Group's time deposits of RMB3,210,000 (2002: RMB16,210,000). Yituo-Made had placed deposits of RMB3,210,000 (2002: RMB12,485,000) with FTGF for securing the aforesaid guarantee provided by FTGF to the bank.
- (b) As at 31 December 2003, the Company had given corporate guarantees of approximately RMB179.5 million to FTGF (2002: RMB115 million) in connection with facilities granted to certain subsidiaries. The facilities were utilised to the extent of approximately RMB201.5 million (2002: RMB115 million). Such contingent liabilities were not provided for in the Company's financial statements.
- (c) As at 31 December 2002, the Company's time deposits of approximately RMB92,829,000 were pledged to certain banks for securing banking facilities granted to a subsidiary, and at 31 December 2002, the facilities were utilised to the extent of RMB50,000,000. Such contingent liabilities were not provided for in the Company's financial statements for the year ended 31 December 2002.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

40. 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 2003, 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	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	1,814	4,415
In the second to fifth years, inclusive	6,725	12,491
	8,539	16,906

(b) As lessee

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

At 31 December 2003, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2003	2002	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	6,876	13,299	5,000	10,000
In the second to fifth years, inclusive	26,603	30,562	20,000	21,740
After five years	215,693	229,839	191,795	196,795
	249,172	273,700	216,795	228,535

NOTES TO FINANCIAL STATEMENTS

31 December 2003

41. COMMITMENTS

(a) Capital commitments

In addition to the operating lease commitments detailed in note 40(b) above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group		Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:				
Purchase of land use right	2,483	—	—	—
Purchase of plant and machinery	81,369	25,529	79,758	22,494
Investment in a subsidiary - Note	—	—	5,200	—
Purchase of investment	—	3,640	—	3,640
	<u>83,852</u>	<u>29,169</u>	<u>84,958</u>	<u>26,134</u>
Authorised, but not contracted for:				
Purchase of plant and machinery	65,506	147,793	65,506	147,793
Investment in an associate	800	—	800	—
Additional capital contribution into a subsidiary	—	—	159,075	165,007
	<u>66,306</u>	<u>147,793</u>	<u>225,381</u>	<u>312,800</u>
	<u>150,158</u>	<u>176,962</u>	<u>310,339</u>	<u>338,934</u>

Note: On 22 December 2003, the Company entered into an agreement with a company and certain individuals, whereby the parties agreed to establish Yituo (Luoyang) Standard Components Company Limited ("YLSC"). The registered capital of YLSC is RMB8,000,000, of which RMB5,200,000 (constituting 65% thereof) will be contributed by the Company, RMB2,000,000 (constituting 25% thereof) will be contributed by the aforesaid company and RMB800,000 (constituting 10% thereof) will be contributed by the aforesaid individuals. The Company's capital contribution of RMB2,145,000 will be made by way of transfer of assets and the remaining RMB3,055,000 was made in the form of cash.

(b) Commitment under foreign exchange contract

As at 31 December 2003, the Company had an outstanding foreign exchange contract entered into with a bank pursuant to which the Company hedged its deposits of approximately HK\$55.77 million (equivalent to US\$7.15 million under the contractual rate of US\$1=HK\$7.8) at the rate of US\$1=RMB8.2771 and the bank will compensate the Company for the shortfall in the Renminbi translated deposit balance if the exchange rate as at 30 June 2004 falls below US\$1=RMB8.2771, while the gain in the Renminbi translated deposit balance will be payable to the bank if the exchange rate on the same date rises above US\$1=RMB8.2771.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

42. 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	2003 RMB'000	2002 RMB'000
Sales of raw materials and components	(i)	186,088	93,848
Purchases of raw materials and components	(i)	332,871	188,921
Purchases of utilities	(ii)	110,249	77,981
Fees paid for welfare and support services	(iii)	22,239	21,426
Purchases of transportation services	(iii)	9,886	4,409
Research and development expenses paid	(iv)	3,897	2,546
Fees paid for the use of land	(v)	5,000	5,000
Fees paid for the use of trademark	(vi)	3,897	2,546
Rentals paid in respect of:			
Buildings	(vii)	1,987	2,053
Plant and machinery	(vii)	2,473	3,060
Fees paid for agency services	(viii)	—	755
Sales of plant and machinery	(ix)	5,422	—
Purchases of plant and machinery	(x)	5,401	—
Interest income, inclusive of discounted bills charges	(xi)	9,641	2,866
Interest paid for customer deposits	(xii)	551	—

The above transactions included the significant transactions carried out between the Group and its associates, YLDC, which is also a subsidiary of the Holding, and YLCF, where the Holding holds a 50% equity interest.

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	2003 RMB'000	2002 RMB'000
Sales of raw materials and components	(i)	62,158	16,935
Purchases of raw materials and components	(i)	143,151	62,492
Interest income, inclusive of discounted bills charges	(xi)	1,770	810
Interest paid for customer deposits	(xii)	192	—

NOTES TO FINANCIAL STATEMENTS

31 December 2003

42. RELATED PARTY TRANSACTIONS (continued)

Particulars of the significant transactions carried out between Group and YLCF after the Group's acquisition of YLCF in 2003 are summarised as follows:

	Notes	2003 RMB'000
Sales of raw materials and components	(i)	9,874
Purchases of raw materials and components	(i)	2,396

(b) The significant transactions carried out between YTQT and its minority shareholder during the year and up to date of the disposal of YTQT are summarised as follows:

	Notes	2003 RMB'000	2002 RMB'000
Sales of raw materials and components	(i)	1,620	4,734
Purchases of raw materials and components	(i)	10,011	16,830
Sales of utilities	(ii)	407	1,251

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% (2002: 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 (2002: RMB5 million) subject to a further land rental adjustment announced by the relevant state land administration authorities.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

42. RELATED PARTY TRANSACTIONS *(continued)*

- (vi) Pursuant to relevant agreements, the pricing for the use of the trademark is charged at a rate of 0.2% (2002: 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 the 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 pricing of the sales of plant and machinery is determined with reference to the net book value of the relevant assets.
 - (x) The purchases of plant and machinery are conducted under mutually agreed terms.
 - (xi) The interest income related to the bills discounting service and loans granted by FTGF to the Holding and its subsidiaries and associates. Pursuant to relevant agreements, the transactions are conducted with reference to the terms and rates stipulated by the PBOC. Details of the outstanding balance of the bills discounted receivable and loans receivable as at the balance sheet date are set out in notes 23 and 20 to the financial statements, respectively.
 - (xii) The interest expense paid for customer deposits relates to the customer deposits placed in FTGF by the Holding and its subsidiaries and associates. Pursuant to relevant agreements, the transactions are conducted with reference to the terms and rates stipulated by the PBOC. Details of the customer deposits balance as at the balance sheet date are set out in note 32 to the financial statements.
- (c) Designated deposits and designated loans
- As at 31 December 2003, an independent third party had placed a designated deposit of RMB2 million (2002: RMB2 million) in FTGF for lending to the Holding.
- As at 31 December 2003, YLCF had placed a designated deposit of RMB1 million in FTGF for lending to a designated party.
- As at 31 December 2002, the Holding had placed a designated deposit of RMB1.5 million in FTGF for lending to a designated party.
- 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.
- (d) FTGF had provided guarantees to the extent of RMB3,210,000 (2002: RMB12,485,000) to a bank for securing certain performance bonds by that bank issued on behalf of Yituo-Made. Further details of the guarantees are disclosed in note 39(a) to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

42. RELATED PARTY TRANSACTIONS *(continued)*

- (e) Further details of the trade payable balances with related parties are set out in note 29 to the financial statements.
- (f) During the year, the Company established a joint venture, Yituo (Luoyang) Fuel Jet Co., Ltd. ("YLFJ"), with the Holding and YLDC. YLFJ is engaged in the design, manufacturing and sale of fuel jet pumps and related components. The registered capital of YLFJ amounts to RMB52,000,000, of which RMB39,000,000 is contributed by the Holding in the form of assets injection, representing 75% of the registered capital of YLFJ. YLDC and the Company contributed RMB9,360,000 and RMB3,640,000 both in the form of cash, representing 18% and 7% of the registered capital of YLFJ, respectively.
- (g) On 22 July 2003, the Company entered into a Promoter agreement with Henan Construction and Investment Corporation ("HCIC"), the Holding, Luoyang Yituo East Industry Company Limited ("East Industry") and an individual person, pursuant to which all five parties agreed to establish LFMC so as to design, manufacture and sell vehicles, mainly heavy loading trucks, accessories and the related ancillary services.

The Company, HCIC, the Holding, East Industry and the individual person hold 29.5%, 60%, 9%, 1% and 0.5% of the shareholding of LFMC respectively. The registered capital of LFMC is RMB200 million and is contributed by the shareholders in the form of cash and is in proportion to their respective percentage of shareholding.

- (h) On 27 September 2003, the Company entered into a Promoter agreement with the Holding and a third party, pursuant to which all three parties agreed to establish YLCF. The principal activities of YLCF are the manufacture and sale of casting and forging products for the use by automobiles.

The registered capital of YLCF is RMB20 million of which RMB10 million (constituting 50% thereof) was contributed by the Holding, RMB5 million (constituting 25% thereof) was contributed by the Company and RMB5 million (constituting 25% thereof) was contributed by the aforesaid third party.

- (i) On 28 November 2003, the Company entered into an agreement with YLDC and certain third parties to establish YEMC. YEMC is engaged in the research, design, manufacture, sales and servicing of engines, engine compacts, generators and accessories, electromechanical and other custom-made products as well as providing professional technology consultation services.

The registered capital of YEMC is RMB38 million, of which RMB15,960,000 (constituting 42% thereof) is contributed by the Company, RMB19,000,000 (constituting 50% thereof) is contributed by YLDC and RMB3,040,000 (constituting 8% thereof) is contributed by the aforesaid third parties.

42. RELATED PARTY TRANSACTIONS *(continued)*

- (j) During the year, the Holding applied for a government-assisted loan on behalf of the Company in relation to the construction of a production line. In this regard, the Company remitted a sum of RMB26,000,000 to the Holding, and in the opinion of the directors, this is for the purpose of placing a deposit with a bank designated by the government to prove that the Group will meet with the government's requirement of having adequate self-financed funds to complete the project.

Subsequently, the Holding refunded certain of the fund remittance to the Company and the outstanding balance to be refunded by the Holding at 31 December 2003 was reduced to RMB5,200,000.

- (k) At 31 December 2002, the Holding guaranteed certain bank loans and other loans to the Group up to RMB23.9 million and RMB0.2 million, respectively.

- (l) Acquisition and partial disposal of FTGF in 2002

In the prior year, 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 asset 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 the form of cash, of RMB269,341,000 and RMB29,999,000 into FTGF, respectively thereafter, FTGF's capital increased to 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 a 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

43. PLEDGE OF ASSETS

Details of the Group's bills payable, bank loans and performance bonds issued by a bank on behalf of a related company, which are secured by assets of the Group, are included in notes 29, 33 and 39(a), respectively, to the financial statements.

44. POST BALANCE SHEET EVENTS

- (a) On 29 March 2004, the Company and YEMC entered into the agreement pursuant to which YEMC agreed to acquire certain assets and liabilities from the Company for a net consideration of RMB22.77 million.
- (b) In April 2004, the Company entered into an agreement with the Holding and certain individuals to establish Yituo (Luoyang) Shentong Construction Machinery Company Limited ("YLST"). The registered capital of YLST was RMB13,000,000, of which RMB6,500,000 (constituting 50% thereof) was contributed by the Company in the form of cash, RMB3,120,000 (constituting 24% thereof) was contributed by the Holding in the form of assets transfer, the remaining RMB3,380,000 (constituting 26% thereof) was contributed by the aforesaid individuals in form of cash.

108

45. COMPARATIVE AMOUNTS

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 17 April 2004.