

# 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 43 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.

## BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public 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 2004 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

22 April 2005

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2004

	Notes	2004 <b>RMB'000</b>	2003 <i>RMB'000</i>
TURNOVER	5	<b>4,246,554</b>	3,277,297
Cost of sales		<b>(3,905,535)</b>	(2,912,313)
Gross profit		<b>341,019</b>	364,984
Other revenue and gains	5	<b>114,027</b>	109,814
Selling and distribution costs		<b>(154,561)</b>	(126,616)
Administrative expenses		<b>(241,439)</b>	(237,211)
Other operating expenses, net		<b>(30,829)</b>	(55,885)
PROFIT FROM OPERATING ACTIVITIES	6	<b>28,217</b>	55,086
Finance costs	7	<b>(9,719)</b>	(9,770)
Share of profits and losses of associates		<b>9,419</b>	10,950
Negative goodwill on acquisition of an associate recognised as income during the year	17	<b>606</b>	606
PROFIT BEFORE TAX		<b>28,523</b>	56,872
Tax	10	<b>(18,663)</b>	(23,847)
PROFIT BEFORE MINORITY INTERESTS		<b>9,860</b>	33,025
Minority interests		<b>2,101</b>	(16,697)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	<b>11,961</b>	16,328
EARNINGS PER SHARE - Basic	12	<b>1.52 cents</b>	2.08 cents

# CONSOLIDATED BALANCE SHEET

31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	13	<b>788,820</b>	776,026
Construction in progress	14	<b>106,338</b>	68,730
Negative goodwill	15	<b>(1,758)</b>	(1,992)
Interests in associates	17	<b>137,645</b>	135,275
Long term investments	18	<b>67,794</b>	65,105
Loans receivable	19	<b>205,750</b>	40,915
		<hr/>	<hr/>
		<b>1,304,589</b>	1,084,059
		<hr/>	<hr/>
<b>CURRENT ASSETS</b>			
Inventories	20	<b>865,110</b>	773,847
Trade and bills receivables	21	<b>490,690</b>	410,611
Loans receivable	19	<b>96,926</b>	189,699
Bills discounted receivable	22	<b>131,985</b>	155,390
Other receivables	23	<b>274,061</b>	238,927
Short term investments	25	<b>19,661</b>	6,955
Pledged deposits	26	<b>69,206</b>	120,157
Cash and cash equivalents	26	<b>397,437</b>	680,427
		<hr/>	<hr/>
		<b>2,345,076</b>	2,576,013
		<hr/>	<hr/>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	27	<b>731,891</b>	683,964
Tax payable		<b>2,913</b>	3,308
Other payables and accruals	28	<b>361,718</b>	355,197
Customer deposits	30	<b>219,707</b>	357,387
Interest-bearing bank loans	31	<b>96,660</b>	65,297
		<hr/>	<hr/>
		<b>1,412,889</b>	1,465,153
		<hr/>	<hr/>
NET CURRENT ASSETS		<b>932,187</b>	1,110,860
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>2,236,776</b>	2,194,919
		<hr/>	<hr/>
MINORITY INTERESTS		<b>159,645</b>	129,749
		<hr/>	<hr/>
		<b>2,077,131</b>	2,065,170
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# CONSOLIDATED BALANCE SHEET

31 December 2004

	Notes	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
CAPITAL AND RESERVES			
Issued capital	33	<b>785,000</b>	785,000
Reserves	34	<b>1,292,131</b>	1,280,170
		<hr/>	<hr/>
		<b>2,077,131</b>	2,065,170
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**Liu Da Gong**  
*Director*

**Yan Lin Jiao**  
*Director*

# CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2004

	<i>Note</i>	<b>2004</b> <b>RMB'000</b>	2003 <i>RMB'000</i>
Total equity at 1 January		<b>2,065,170</b>	2,048,842
Net profit for the year attributable to shareholders	34	<b>11,961</b>	16,328
Total equity at 31 December		<b>2,077,131</b>	2,065,170

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>28,523</b>	56,872
Adjustments for:			
Finance costs	7	<b>9,719</b>	9,770
Share of profits and losses of associates		<b>(9,419)</b>	(10,950)
Interest income	6	<b>(44,117)</b>	(24,222)
(Gain)/loss on disposal of fixed assets	6	<b>(320)</b>	14,727
Gain on disposal of subsidiaries	5, 6	—	(41,000)
Gain on disposal of an associate	5, 6	—	(3,600)
Depreciation	6	<b>89,867</b>	99,801
Impairment/(reversal of impairment) of construction in progress	6	<b>(7,802)</b>	6,405
Reversal of impairment of fixed assets, net	6	<b>(15,252)</b>	(11,800)
Negative goodwill on acquisition of a subsidiary recognised as income during the year	5, 6	<b>(234)</b>	(235)
Negative goodwill on acquisition of an associate recognised as income during the year	17	<b>(606)</b>	(606)
Dividend income from long term unlisted investments	5, 6	<b>(501)</b>	(1,602)
Gain on disposal of long term unlisted investments	5, 6	<b>(14,529)</b>	(50)
Loss/(gain) on disposal of short term listed investments	5, 6	<b>680</b>	(14)
Provision and write-off of bad and doubtful debts, net	6	<b>45,506</b>	271
Provision/(reversal of provision) for other receivable	6	<b>(17,720)</b>	25,000
Provision for loans receivable	6	<b>648</b>	4,383
Provision for obsolete inventories, net	6	<b>7,448</b>	3,308
Unrealised loss on changes in fair values of short term listed investments	6	<b>1,837</b>	—
Operating profit before working capital changes		<b>73,728</b>	126,458
Increase in inventories		<b>(84,525)</b>	(187,234)
Increase in loans receivable		<b>(72,710)</b>	(126,190)
Increase in trade and bills receivables		<b>(125,165)</b>	(99,333)
Decrease/(increase) in bills discounted receivable		<b>23,405</b>	(68,457)
Increase in prepayments, deposits and other debtors		<b>(6,233)</b>	(209,750)
Decrease in an amount due from the ultimate holding company		<b>13,908</b>	26,850
(Increase)/decrease in short term investments		<b>(15,223)</b>	77,562
Increase in trade and bills payables		<b>44,109</b>	242,195
(Decrease)/increase in customer deposits		<b>(137,680)</b>	235,128
(Decrease)/increase in accruals and other liabilities		<b>(59,203)</b>	20,711
Increase in provision for product warranties		<b>412</b>	2,300
Increase/(decrease) in an amount due to the ultimate holding company		<b>48,111</b>	(18,643)
Cash (utilised in)/generated from operations		<b>(297,066)</b>	21,597

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2004

	<i>Note</i>	<b>2004</b> <b>RMB'000</b>	2003 <i>RMB'000</i>
Cash (utilised in)/generated from operations		<b>(297,066)</b>	21,597
Interest received		<b>44,117</b>	24,222
Interest paid		<b>(9,719)</b>	(9,770)
Income tax paid		<b>(19,450)</b>	(18,397)
		<hr/>	<hr/>
Net cash (outflow)/inflow from operating activities		<b>(282,118)</b>	17,652
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Dividend income from long term unlisted investments		<b>501</b>	1,602
Dividend income received from an associate		<b>3,745</b>	—
Purchases of fixed assets and additions			
to construction in progress		<b>(129,896)</b>	(131,182)
Proceeds from disposal of fixed assets		<b>27,740</b>	20,684
Purchases of long term investments		<b>(4,689)</b>	(9,020)
Proceeds from disposal of long term investments		<b>16,529</b>	450
Investments in associates		<b>(800)</b>	(82,092)
Disposal of an associate		—	3,600
Disposal of subsidiaries	35(a)	—	(32,786)
Decrease/(increase) in cash deposits in the People's Bank of China		<b>15,076</b>	(27,760)
Decrease in time deposits		<b>244,545</b>	202,514
Decrease in pledged deposits		<b>50,951</b>	53,922
		<hr/>	<hr/>
Net cash inflow/(outflow) from investing activities		<b>223,702</b>	(68)

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2004

	<i>Notes</i>	<b>2004</b> <b>RMB'000</b>	2003 <i>RMB'000</i>
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		<b>218,270</b>	96,847
Repayment of bank and other loans		<b>(186,907)</b>	(83,070)
Dividends paid to minority shareholders		<b>(8,623)</b>	(2,460)
Contributions from minority shareholders		<b>12,307</b>	10,424
		<hr/>	<hr/>
Net cash inflow from financing activities		<b>35,047</b>	21,741
		<hr/>	<hr/>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		<b>(23,369)</b>	39,325
		<b>384,994</b>	345,669
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		<b>361,625</b>	384,994
		<hr/>	<hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	<b>340,043</b>	247,404
Non-pledged time deposits with original maturity of less than three months when acquired	26	<b>21,582</b>	137,590
		<hr/>	<hr/>
		<b>361,625</b>	384,994
		<hr/>	<hr/>



# BALANCE SHEET

31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	13	<b>522,870</b>	552,151
Construction in progress	14	<b>77,226</b>	48,153
Interests in subsidiaries	16	<b>926,192</b>	730,231
Investments in associates	17	<b>105,760</b>	104,960
Long term investments	18	<b>65,780</b>	61,100
		<b>1,697,828</b>	1,496,595
<b>CURRENT ASSETS</b>			
Inventories	20	<b>369,376</b>	323,914
Trade and bills receivables	21	<b>193,609</b>	101,964
Other receivables	23	<b>158,041</b>	137,550
Pledged deposits	26	<b>3,000</b>	87,579
Cash and cash equivalents	26	<b>63,121</b>	381,955
		<b>787,147</b>	1,032,962
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	27	<b>287,277</b>	387,264
Tax payable		<b>769</b>	784
Other payables and accruals	28	<b>175,028</b>	169,043
Interest-bearing bank loans	31	<b>20,000</b>	—
		<b>483,074</b>	557,091
<b>NET CURRENT ASSETS</b>		<b>304,073</b>	475,871
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,001,901</b>	1,972,466
<b>CAPITAL AND RESERVES</b>			
Issued capital	33	<b>785,000</b>	785,000
Reserves	34	<b>1,216,901</b>	1,187,466
		<b>2,001,901</b>	1,972,466

**Liu Da Gong**  
Director

**Yan Lin Jiao**  
Director

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 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 RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice ("SSAPs") and Interpretations) issued by the HKICPA, 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

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

### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. 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 Group/Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Group/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 Group/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.

### **Associates**

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates.

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

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

### **Goodwill**

Goodwill arising on the acquisition of subsidiaries and associates 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, 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 or associates, 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 and associates 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, 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 or associates, 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 consolidated retained profits at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

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

### **Related parties**

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

### **Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and 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, unless the assets is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued assets.

### **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.

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

### **Fixed assets and depreciation** *(continued)*

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.

### **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.

### **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.



# NOTES TO FINANCIAL STATEMENTS

31 December 2004

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

### **Long term investments**

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

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

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

### **Short term investments**

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

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of production overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Spare parts and consumables are stated at cost less any provision for obsolescence.

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

### **Provisions**

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

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

Provisions 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 values as appropriate.

### **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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

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

### **Income tax** *(continued)*

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.

### **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.

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

### **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 stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

### **Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

### **Foreign currencies**

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

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

### **Foreign currencies** *(continued)*

For the purpose of the consolidated cash flow statement, the cash flows of the overseas subsidiary are translated into 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 into Renminbi at the weighted average exchange rates for the year.

### **Retirement benefits scheme**

Contributions to the 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.

## 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

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## 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	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	2,953,914	2,014,219	802,655	886,514	379,827	263,099	110,146	109,036	—	—	12	4,429	—	—	4,246,554	3,277,297
Intersegment revenue	223,071	22,366	1,250	—	19,523	27,585	—	—	13,187	7,310	—	—	(257,031)	(57,261)	—	—
Other revenue and gains	—	—	—	—	—	—	—	—	40,260	20,737	—	—	—	—	40,260	20,737
Total	3,176,985	2,036,585	803,905	886,514	399,350	290,684	110,146	109,036	53,447	28,047	12	4,429	(257,031)	(57,261)	4,286,814	3,298,034
Segment results	(7,871)	(56,368)	(1,429)	62,729	(25,950)	3,936	(323)	(2,780)	31,723	15,560	(5,909)	2,879	—	—	(9,759)	25,956
Interest, dividend, investment income and negative goodwill recognised as income															22,773	9,530
Gain on disposal of subsidiaries															—	41,000
Gain on disposal of an associate															—	3,600
(Provision) /reversal of provision for other receivable															17,720	(25,000)
Unallocated expenses															(2,517)	—
Profit from operating activities															28,217	55,086
Finance costs															(9,719)	(9,770)
Share of profits and losses of associates	9,790	2,506	—	—	—	—	—	—	—	—	(371)	8,444	—	—	9,419	10,950
Negative goodwill on acquisition of an associate recognised as income during the year	—	—	—	—	—	—	—	—	—	—	606	606	—	—	606	606
Profit before tax															28,523	56,872
Tax															(18,663)	(23,847)
Profit before minority interests															9,860	33,025
Minority interests															2,101	(16,697)
Net profit from ordinary activities attributable to shareholders															11,961	16,328

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 4. SEGMENT INFORMATION (continued)

### Group

	Tractors		Road machinery		Construction machinery		Harvesting machinery		Financial operations		Others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	1,785,585	1,928,442	819,607	760,138	326,861	216,067	125,652	97,770	920,176	836,600	78,306	72,368	(677,686)	(501,656)	3,378,501	3,409,729
Interests in associates	28,618	25,466	—	—	—	—	—	—	—	—	109,027	109,809	—	—	137,645	135,275
Unallocated assets															133,519	115,068
Total assets															3,649,665	3,660,072
Segment liabilities	612,023	602,143	512,475	465,691	224,481	97,494	114,923	86,358	402,644	518,742	124,456	127,776	(677,686)	(501,656)	1,313,316	1,396,548
Unallocated liabilities															99,573	68,605
Total liabilities															1,412,889	1,465,153
Other segment information:																
Capital expenditure	76,886	73,717	22,469	31,981	9,996	17,280	20,087	7,364	458	826	—	14	—	—	129,896	131,182
Depreciation	71,925	84,013	12,505	11,329	3,655	2,926	1,094	732	511	368	177	433	—	—	89,867	99,801
Impairment/(reversal of impairment) of fixed assets and construction in progress recognised in the profit and loss account	(23,054)	(5,395)	—	—	—	—	—	—	—	—	—	—	—	—	(23,054)	(5,395)
Other non-cash expenses:																
Provision/(reversal of provision) and write-off of bad and doubtful debts	4,218	(14,085)	37,148	13,237	1,420	1,119	720	—	—	—	2,000	—	—	—	45,506	271
Provision/(reversal of provision) for obsolete inventories	(6,000)	2,000	6,628	(1,082)	8,700	1,200	(2,380)	1,190	—	—	500	—	—	—	7,448	3,308
Provision for loans receivable	—	—	—	—	—	—	—	—	648	4,383	—	—	—	—	648	4,383



# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 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:

	<i>Notes</i>	<b>2004</b> <b>RMB'000</b>	2003 RMB'000
<b>Turnover</b>			
Sale of goods		<b>4,246,554</b>	3,277,297
<b>Other revenue</b>			
Interest income		<b>5,048</b>	5,529
Interest income from financial operations		<b>39,069</b>	18,693
Profit from sundry sales		<b>22,757</b>	15,066
Rental income		<b>6,985</b>	4,895
Trademark licence fee		<b>2,110</b>	—
Investment income from short term listed investments		<b>1,400</b>	2,100
Dividend income from short term listed investments		<b>1,061</b>	—
Dividend income from long term unlisted investments		<b>501</b>	1,602
Others		<b>20,013</b>	17,030
		<b>98,944</b>	64,915
<b>Gains</b>			
Gain on disposal of fixed assets		<b>320</b>	—
Gain on disposal of subsidiaries	35(a)	—	41,000
Gain on disposal of an associate		—	3,600
Gain on disposal of long term unlisted investments		<b>14,529</b>	50
Gain on disposal of short term listed investments		—	14
Negative goodwill recognised	15	<b>234</b>	235
		<b>15,083</b>	44,899
		<b>114,027</b>	109,814

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 6. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2004 RMB'000	2003 RMB'000
Cost of inventories sold		<b>3,905,535</b>	2,912,313
Depreciation	13	<b>89,867</b>	99,801
Impairment/(reversal of impairment) of construction in progress**	14	<b>(7,802)</b>	6,405
Reversal of impairment of fixed assets, net**	13	<b>(15,252)</b>	(11,800)
Staff costs (excluding directors' and supervisors' remuneration - note 8):			
Wages and salaries		<b>285,586</b>	321,312
Pension scheme contributions***		<b>58,380</b>	52,496
		<b>343,966</b>	373,808
Minimum lease payments under operating lease rentals:			
Land and buildings		<b>14,641</b>	13,299
Plant and machinery		<b>2,539</b>	—
		<b>17,180</b>	13,299
Research and development costs		<b>24,186</b>	18,954
Auditors' remuneration		<b>3,500</b>	3,200
Provision and write-off of bad and doubtful debts, net		<b>45,506</b>	271
Provision/(reversal of provision) for other receivable		<b>(17,720)</b>	25,000
Provision for loans receivable		<b>648</b>	4,383
Interest expense from financial operations		<b>11,244</b>	2,107
Provision for obsolete inventories, net		<b>7,448</b>	3,308
(Gain)/loss on disposal of fixed assets		<b>(320)</b>	14,727
Unrealised loss on changes in fair values of short term listed investments		<b>1,837</b>	—
Gain on disposal of subsidiaries*		—	(41,000)
Gain on disposal of an associate*		—	(3,600)
Exchange losses/(gains), net		<b>1,330</b>	(790)
Investment income from short term listed investments		<b>(1,400)</b>	(2,100)
Dividend income from short term listed investments		<b>(1,061)</b>	—
Loss/(gain) on disposal of short term listed investments		<b>680</b>	(14)
Dividend income from long term unlisted investments		<b>(501)</b>	(1,602)
Gain on disposal of long term unlisted investments		<b>(14,529)</b>	(50)
Interest income		<b>(5,048)</b>	(5,529)
Interest income from financial operations		<b>(39,069)</b>	(18,693)
Negative goodwill on acquisition of a subsidiary recognised as income during the year*	15	<b>(234)</b>	(235)
Net rental income		<b>(6,985)</b>	(4,895)

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 6. PROFIT FROM OPERATING ACTIVITIES *(continued)*

- \* The gain on disposal 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 "Other operating expenses, net" on the face of the consolidated profit and loss account.
- \*\*\* At 31 December 2004, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2003: Nil).

## 7. FINANCE COSTS

	Group	
	2004	2003
	RMB'000	RMB'000
Interest on bank and other loans		
wholly repayable within five years	9,719	9,770
Less: Interest capitalised	—	—
	<u>9,719</u>	<u>9,770</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 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	
	2004	2003
	RMB'000	RMB'000
Fees	—	—
Other emoluments:		
Salaries, allowances and benefits in kind	530	530
Performance-related bonuses	265	265
Pension scheme contributions	199	207
	<u>994</u>	<u>1,002</u>
	<u>994</u>	<u>1,002</u>

There was no remuneration payable to the independent non-executive directors for their services rendered to the Company during the year (2003: Nil).

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

	Number of directors and supervisors	
	2004	2003
Nil to HK\$1,000,000	<u>21</u>	<u>20</u>

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2003: Nil) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2003: five) non-director, highest paid employee for the year are as follows:

	Group	
	2004	2003
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	35	192
Performance related bonuses	45	1,132
Pension scheme contributions	6	35
	<u>86</u>	<u>1,359</u>

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

	Number of employees	
	2004	2003
Nil to HK\$1,000,000	<u>1</u>	<u>5</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 10. TAX

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Group:		
Current - PRC corporate income tax		
Charge for the year	<b>15,185</b>	21,641
Overprovision in prior years	<b>(1,232)</b>	—
Deferred tax ( <i>note 32</i> )	—	—
	<hr/> <b>13,953</b>	<hr/> 21,641
Share of tax attributable to associates	<hr/> <b>4,710</b>	<hr/> 2,206
Total tax charge for the year	<hr/> <b>18,663</b>	<hr/> 23,847

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 2004 and 2003.

The PRC corporate income tax for the Company and its subsidiaries is calculated at rates ranging from 10% to 33% (2003: 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 profits tax has been made for the Group as there were no assessable profits for the year (2003: Nil).

The PRC corporate income tax of the associates is calculated at rates ranging from 15% to 33% (2003: 15% 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 2004

## 10. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the locations in which the Company and its subsidiaries 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

	2004		2003	
	RMB'000	%	RMB'000	%
Profit before tax	<b>28,523</b>		<b>56,872</b>	
Tax at PRC statutory tax rate	<b>9,413</b>	<b>33</b>	18,768	33
Lower tax rate for specific provinces or local authority	<b>(8,165)</b>	<b>(29)</b>	(21,108)	(37)
Adjustments in respect of current tax of previous periods	<b>(1,232)</b>	<b>(4)</b>	—	—
Income not subject to tax	<b>(13,931)</b>	<b>(49)</b>	(16,363)	(29)
Expenses not deductible for tax	<b>13,160</b>	<b>46</b>	10,111	18
Tax losses utilised from previous periods	<b>(7,047)</b>	<b>(25)</b>	(1,014)	(2)
Tax losses not recognised	<b>26,465</b>	<b>93</b>	33,453	59
Tax charge at the Group's effective rate	<b>18,663</b>	<b>65</b>	23,847	42

## 11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was RMB29,435,000 (2003: net loss of RMB89,611,000).

## 12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of RMB11,961,000 (2003: RMB16,328,000), and the weighted average of 785,000,000 (2003: 785,000,000) ordinary shares in issue during the year.

No diluted earnings 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 2004

## 13. FIXED ASSETS

Group	Land use right RMB'000	Buildings RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
Cost:					
At beginning of year	7,763	762,831	1,230,017	76,650	2,077,261
Additions	342	5,078	11,377	8,599	25,396
Transfer from construction in progress (note 14)	—	23,134	47,721	3,839	74,694
Contributions by minority interests as capital of subsidiaries	—	10,300	12,968	4,505	27,773
Reclassifications	—	(529)	34,641	(34,112)	—
Disposals	—	(12,111)	(107,090)	(7,184)	(126,385)
At 31 December 2004	<u>8,105</u>	<u>788,703</u>	<u>1,229,634</u>	<u>52,297</u>	<u>2,078,739</u>
Accumulated depreciation and impairment:					
At beginning of year	155	423,695	838,784	38,601	1,301,235
Depreciation provided during the year	203	24,240	61,657	3,767	89,867
Contributions by minority interests as capital of subsidiaries	—	5,199	5,697	2,138	13,034
Reversal of impairment during the year recognised in the profit and loss account	—	—	(15,252)	—	(15,252)
Reclassifications	—	(203)	21,529	(21,326)	—
Disposals	—	(8,613)	(86,688)	(3,664)	(98,965)
At 31 December 2004	<u>358</u>	<u>444,318</u>	<u>825,727</u>	<u>19,516</u>	<u>1,289,919</u>
Net book value:					
At 31 December 2004	<u>7,747</u>	<u>344,385</u>	<u>403,907</u>	<u>32,781</u>	<u>788,820</u>
At 31 December 2003	<u>7,608</u>	<u>339,136</u>	<u>391,233</u>	<u>38,049</u>	<u>776,026</u>



# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 13. FIXED ASSETS *(continued)*

Company	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	583,665	1,114,478	19,921	1,718,064
Additions	1,083	4,490	1,051	6,624
Transfer from construction in progress <i>(note 14)</i>	14,055	29,081	2,197	45,333
Disposals	<u>(21,047)</u>	<u>(105,650)</u>	<u>(3,510)</u>	<u>(130,207)</u>
At 31 December 2004	<u>577,756</u>	<u>1,042,399</u>	<u>19,659</u>	<u>1,639,814</u>
Accumulated depreciation and impairment:				
At beginning of year	365,616	788,560	11,737	1,165,913
Depreciation provided during the year	18,007	51,627	1,652	71,286
Reversal of impairment during the year recognised in the profit and loss account	—	(15,252)	—	(15,252)
Disposals	<u>(16,057)</u>	<u>(86,495)</u>	<u>(2,451)</u>	<u>(105,003)</u>
At 31 December 2004	<u>367,566</u>	<u>738,440</u>	<u>10,938</u>	<u>1,116,944</u>
Net book value:				
At 31 December 2004	<u>210,190</u>	<u>303,959</u>	<u>8,721</u>	<u>522,870</u>
At 31 December 2003	<u>218,049</u>	<u>325,918</u>	<u>8,184</u>	<u>552,151</u>

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

At 31 December 2004, certain of the Group's buildings and machinery with an aggregate net carrying value of approximately RMB27,417,000 (2003: RMB27,779,000) were pledged to secure certain short term bank loans granted to the Group (note 31).

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 13. FIXED ASSETS *(continued)*

At 31 December 2004, certain of the Group's plant, machinery and equipment with cost of approximately RMB65,371,000 (2003: Nil) and accumulated depreciation and impairment of RMB46,933,000 (2003: Nil) were leased to third parties under operating leases. The depreciation of these fixed assets recognised in the consolidated profit and loss account amounted to approximately RMB4,879,000 (2003: Nil).

At 31 December 2004, certain of the Group's buildings with cost of approximately RMB40,229,000 (2003: RMB36,456,000) and accumulated depreciation and impairment of RMB28,545,000 (2003: RMB30,865,000) were leased to third parties under operating leases. The depreciation of these fixed assets recognised in the consolidated profit and loss account amounted to approximately RMB1,269,000 during the year (2003: RMB1,000,000).

During the year, certain impaired fixed assets previously under long term idle condition had been modified and restored to their normal economic performance, and the relevant impairment provision was reversed accordingly.

## 14. CONSTRUCTION IN PROGRESS

	<b>Group</b> <i>RMB'000</i>	<b>Company</b> <i>RMB'000</i>
Cost:		
At beginning of year	<b>83,694</b>	61,927
Additions	<b>104,500</b>	66,604
Transfer to fixed assets ( <i>note 13</i> )	<b>(74,694)</b>	(45,333)
	<hr/>	<hr/>
At 31 December 2004	<b>113,500</b>	83,198
	<hr/>	<hr/>
Accumulated impairment:		
At beginning of the year	<b>14,964</b>	13,774
Reversal of impairment during the year recognised in the profit and loss account	<b>(7,802)</b>	(7,802)
	<hr/>	<hr/>
At 31 December 2004	<b>7,162</b>	5,972
	<hr/>	<hr/>
Net book value:		
At 31 December 2004	<b>106,338</b>	77,226
	<hr/>	<hr/>
At 31 December 2003	<b>68,730</b>	48,153
	<hr/>	<hr/>

During the year, additional capital expenditure was incurred on certain suspended construction in progress to restore their intended use. The relevant impairment provision was reversed accordingly.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 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:

<b>Group</b>	<b>Negative goodwill</b> <i>RMB'000</i>
Cost:	
At beginning and end of year	2,344
Accumulated recognition as income:	
At beginning of year	352
Recognised as income during the year	234
At 31 December 2004	586
Net book value:	
At 31 December 2004	1,758
At 31 December 2003	1,992

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.

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, were RMB39,844,000 and RMB102,000, as at 1 January and 31 December 2004, respectively. The amount of goodwill is stated at its cost.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 16. INTERESTS IN SUBSIDIARIES

<b>Company</b>	<b>2004</b>	<b>2003</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Unlisted investments, at cost	<b>696,747</b>	479,747
Loans to subsidiaries	<b>62,000</b>	22,000
Deposits placed in a subsidiary	<b>123,273</b>	87,125
Loan from a subsidiary	—	(15,000)
Due from subsidiaries	<b>175,497</b>	240,368
Due to subsidiaries	<b>(77,630)</b>	(8,514)
	<b>979,887</b>	805,726
Provision for impairment	<b>(53,695)</b>	(53,695)
Provision for amounts due from subsidiaries	—	(21,800)
	<b>926,192</b>	730,231

The loans to subsidiaries, which are granted in the form of designated deposits through a subsidiary of the Company, are unsecured, bear interest at a rate of 5.22% to 5.58% (2003: 5.31%) per annum and are repayable within one year.

The loan from a subsidiary was unsecured, bore interest at a rate of 5.04% per annum and was repaid during the 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 RMB44,927,000 (2003: RMB109,438,000) and amounts due to subsidiaries aggregating RMB48,416,000 (2003: Nil) 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 2004

## 16. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Brilliance China Machinery Holdings Limited	Bermuda	US\$12,000	90.1	—	Investment holding
Yituo (Luoyang) Construction Machinery Co., Ltd. <sup>†</sup>	PRC	US\$9,980,000	49	46	Manufacture and sale of tractors and construction machinery
Yituo (Luoyang) Building Machinery Co., Ltd. (“YBMC”) <sup>†</sup>	PRC	US\$9,980,000	49	46	Manufacture and sale of road rollers and road construction machinery
Luoyang Changlun Agricultural Machinery Company Limited* <sup>#</sup> 洛陽長倫農業機械有限公司	PRC	RMB500,000	99	—	Trading of tractors
Yituo Shenyang Tractor Company Limited* <sup>#</sup> 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 (“ZHAM”) <sup>†</sup>	PRC	US\$1,000,000	—	53.2	Manufacture and sale of road construction machinery

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 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	
Zhenjiang Huachen Huatong Road Machinery Company Limited ("ZHHRM")†	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
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	RMB500,000,000	87.8	6.6	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

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 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	
Yituo (Luoyang) Standard Components Company Limited ("YLSC")* #° 一拖(洛陽)標準零件有限公司	PRC	RMB8,000,000	65	—	Manufacture and sales of metallic components
Yituo (Luoyang) Shentong Construction Machinery Company Limited ("YLST")* #° - note (iii) 一拖(洛陽)神通工程機械有限公司	PRC	RMB13,000,000	50	—	Manufacture and sales of construction machinery
Yituo (Luoyang) Lutong Construction Machinery Company Limited ("YLLT")* #° - note (iv) 一拖(洛陽)路通工程機械有限公司	PRC	RMB58,000,000	—	43.7	Manufacture and sales of construction machinery

Notes:

- (i) During the year, the Company further injected RMB200 million into FTGF as additional share capital of FTGF. In accordance with the licence issued by the PBOC, FTGF is permitted to conduct certain financial services, including loan-making, deposit-taking, bills-discounting 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 conferred 8% voting rights in the shareholders' meeting of YLBC to the Company. Therefore, the Company can exercise control over the financial and operating policies of YLBC.
- (iii) YLST was newly incorporated during the year. The percentage of equity interest in YLST held by the Company and the Holding are 50% and 24%, respectively. The Holding conferred all its voting rights in the shareholders' meeting of YLST to the Company, such that the Company can exercise control over the financial and operating policies of YLST.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 16. INTERESTS IN SUBSIDIARIES *(continued)*

Notes: *(continued)*

(iv) YLLT was newly established during the year. Certain individual shareholders in aggregate holding 5% equity interest of YLLT conferred all their voting rights in the shareholders' meeting of YLLT to YBMC, a subsidiary of the Group. Thus, the Group can exercise control over the financial and operating policies of YLLT.

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

# A limited liability company established in the PRC.

† A Sino-foreign joint venture company established in the PRC.

° A subsidiary newly established during the year.

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

## 17. INTERESTS/INVESTMENTS IN ASSOCIATES

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Unlisted shares, at cost	—	—	147,760	146,960
Share of net assets	141,888	140,124	—	—
Negative goodwill on acquisition	(4,243)	(4,849)	—	—
	<b>137,645</b>	135,275	<b>147,760</b>	146,960
Provision for impairment	—	—	(42,000)	(42,000)
	<b>137,645</b>	135,275	<b>105,760</b>	104,960

The Group's loan to and deposits from associates are disclosed in notes 19 and 30 to the financial statements, respectively.

The Group's trade receivable, other receivables and trade payable balances due from/to associates are disclosed in notes 21, 23 and 27 to the financial statements, respectively.



# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 17. INTERESTS/INVESTMENTS IN ASSOCIATES *(continued)*

Goodwill remaining in consolidated reserves arising from the acquisition of the associate, First Tractor Ningbo C.S.I. Tractor & Automobile Corp., Ltd. ("NCSIT"), amounted to RMB4,901,000 as at 1 January and 31 December 2004. The amount of goodwill is stated at cost.

The amount of negative goodwill from the acquisition of an associate, Yituo (Luoyang) Diesel Co., Ltd. ("YLDC"), is as follows:

<b>Group</b>	<b>Negative goodwill</b> <i>RMB'000</i>
Cost:	
At beginning and end of year	<u>6,061</u>
Accumulated recognition as income:	
At beginning of year	1,212
Recognised as income during the year	<u>606</u>
At 31 December 2004	<u>1,818</u>
Net book value:	
At 31 December 2004	<u>4,243</u>
At 31 December 2003	<u>4,849</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 17. 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	
YLDC - <i>note (i)</i>	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")* - <i>note (ii)</i> 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")* - <i>note (iii)</i> 一拖(洛陽)鑄鍛有限公司	Corporate	PRC	25	—	Manufacture and sale of casting and forging products
NCSIT - <i>note (iv)</i>	Corporate	PRC	40	—	Manufacture and sale of tractors

Notes:

- (i) The Holding holds a 75% equity interest in YLDC and the remaining 25% equity interest is held by a non-wholly-owned subsidiary of the Company.
- (ii) 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.
- (iii) The Holding holds a 50% equity interest in YLFC.
- (iv) NCSIT is reclassified from a jointly-controlled entity to an associate during the year.
- \* The names of the above PRC associates in English are a direct translation of their respective registered names in Chinese.

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 18. LONG TERM INVESTMENTS

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Unlisted equity investments, at fair value	<b>69,917</b>	67,228	<b>67,903</b>	63,223
Provision for impairment	<b>(2,123)</b>	(2,123)	<b>(2,123)</b>	(2,123)
	<b>67,794</b>	65,105	<b>65,780</b>	61,100

## 19. LOANS RECEIVABLE

Group - 2004	Notes	Gross	Provision	Net
		amount RMB'000	RMB'000	RMB'000
Loan to the Holding		<b>196,000</b>	<b>5,880</b>	<b>190,120</b>
Loans to associates	(i)	<b>22,900</b>	<b>927</b>	<b>21,973</b>
Loans to related companies	(ii)	<b>15,750</b>	<b>2,443</b>	<b>13,307</b>
Loans to customers	(iii)	<b>78,890</b>	<b>1,614</b>	<b>77,276</b>
		<b>313,540</b>	<b>10,864</b>	<b>302,676</b>
Portion classified as current assets		<b>(101,337)</b>	<b>(4,411)</b>	<b>(96,926)</b>
Long term portion		<b>212,203</b>	<b>6,453</b>	<b>205,750</b>
		<b>212,203</b>	<b>6,453</b>	<b>205,750</b>
Group - 2003		Gross	Provision	Net
		amount RMB'000	RMB'000	RMB'000
Loan to the Holding		124,000	3,720	120,280
Loan to an associate		20,000	200	19,800
Loans to related companies		19,680	390	19,290
Loans to customers		77,150	5,906	71,244
		240,830	10,216	230,614
Portion classified as current assets		<b>(198,650)</b>	<b>(8,951)</b>	<b>(189,699)</b>
Long term portion		42,180	1,265	40,915
		<b>42,180</b>	<b>1,265</b>	<b>40,915</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 19. LOANS RECEIVABLE *(continued)*

Notes:

- (i) The loans to associates represent the loans granted by FTGF to YLDC, YLCF and YEMC.
- (ii) The loans to related companies represent the loans granted by FTGF to the companies which the Holding has significant influence therein.
- (iii) 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	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Repayable:		
Three months or less	24,200	37,430
One year or less but over three months	77,137	161,220
Five years or less but over one year	206,643	42,180
Over five years	5,560	—
	<b>313,540</b>	240,830

## 20. INVENTORIES

	Group		Company	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Raw materials	148,682	123,583	61,962	51,450
Work in progress	257,934	253,810	168,012	130,923
Finished goods	423,850	355,329	109,482	103,220
Spare parts and consumables	34,644	41,125	29,920	38,321
	<b>865,110</b>	773,847	<b>369,376</b>	323,914

At 31 December 2004, the carrying amount of inventories of the Group and the Company carried at net realisable value included in the above balances were approximately RMB88.1 million (2003: RMB3.6 million) and RMB11 million (2003: Nil), respectively.

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 21. 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	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Within 90 days	<b>314,146</b>	246,175	<b>158,246</b>	77,181
91 days to 180 days	<b>89,393</b>	62,159	<b>28,574</b>	16,115
181 days to 365 days	<b>59,185</b>	64,918	<b>4,818</b>	3,054
1 to 2 years	<b>27,151</b>	35,110	<b>1,971</b>	5,614
Over 2 years	<b>815</b>	2,249	—	—
	<b>490,690</b>	410,611	<b>193,609</b>	101,964

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

Included in the trade and bills receivables of the Group and the Company are trade receivables from associates aggregating RMB1,901,000 (2003: Nil).

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 22. 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 RMB53,064,000 (2003: RMB82,190,000) related to the Holding; approximately RMB26,265,000 (2003: RMB32,561,000) related to an associate; and approximately RMB3,425,000 (2003: RMB495,000) 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	
	2004 RMB'000	2003 RMB'000
Maturing within:		
Three months or less	41,714	77,960
Six months or less but over three months	91,604	79,000
	<b>133,318</b>	156,960
Less: Provision for bills discounted receivable	(1,333)	(1,570)
	<b>131,985</b>	155,390

## 23. OTHER RECEIVABLES

	Note	Group		Company	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Prepayments, deposits and other debtors		268,959	225,019	158,041	123,642
Prepaid income tax		5,102	—	—	—
Due from the Holding	24	—	13,908	—	13,908
		<b>274,061</b>	238,927	<b>158,041</b>	137,550

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 23. OTHER RECEIVABLES *(continued)*

Notes:

- (i) Included in other debtors was a gross amount of RMB50 million (2003: RMB50 million) due from the branch of a securities company which represented the overdue balance of government bond investment to be repaid to the Company. During the year ended 31 December 2003, a provision of RMB25 million was made in respect of the uncertainty to recover the outstanding sum. During the year, settlement agreement has been reached between the Company and the securities company such that the final agreed sum to be received by the Company is RMB42.7 million. Accordingly, approximately RMB17.7 million of the aforesaid provision made on the outstanding sum was reversed to the profit and loss account during the year.
- (ii) Included in other debtors of the Group and the Company were other receivables due from associates aggregating RMB12,905,000 (2003: Nil).
- (iii) Included in other debtors of the Group was other receivables due from the minority shareholders of a subsidiary of the Group of RMB19,293,000 (2003: RMB4,175,000). Such balances are unsecured, interest-free and have been repaid subsequent to the balance sheet date.

## 24. DUE FROM/TO THE HOLDING

The balances due from/to the Holding are interest-free, unsecured and have no fixed terms of repayment.

## 25. SHORT TERM INVESTMENTS

	<b>Group</b>	
	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Listed equity securities, at market value:		
Hong Kong	<b>7,203</b>	5,369
Mainland China	<b>12,458</b>	1,586
	<b>19,661</b>	6,955

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Notes	Group		Company	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Cash and bank balances		<b>340,043</b>	247,404	<b>60,049</b>	21,851
Cash deposits in the					
PBOC - Note		<b>29,530</b>	44,606	—	—
Time deposits		<b>97,070</b>	508,574	<b>6,072</b>	447,683
		<b>466,643</b>	800,584	<b>66,121</b>	469,534
Less: Pledged time deposits:					
Pledged for bills payable	27	<b>(54,382)</b>	(74,113)	—	(60,929)
Pledged for bank loans	31	—	(13,233)	—	—
Pledged for guarantees	37(c)	—	(3,210)	—	—
Pledged for other banking facilities		<b>(14,824)</b>	(29,601)	<b>(3,000)</b>	(26,650)
Cash and cash equivalents		<b>397,437</b>	680,427	<b>63,121</b>	381,955

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.



# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

(continued)

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	
	2004	2003
	RMB'000	RMB'000
Maturing within:		
Three months or less	<b>90,788</b>	240,881
One year or less but over three months	<b>6,282</b>	267,693
	<b>97,070</b>	508,574

## 27. 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	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	<b>432,112</b>	510,542	<b>224,947</b>	298,762
91 days to 180 days	<b>189,767</b>	72,179	<b>27,812</b>	21,408
181 days to 365 days	<b>77,545</b>	71,995	<b>19,191</b>	47,947
1 to 2 years	<b>19,636</b>	14,301	<b>7,829</b>	9,606
Over 2 years	<b>12,831</b>	14,947	<b>7,498</b>	9,541
	<b>731,891</b>	683,964	<b>287,277</b>	387,264

The Group's bills payables amounting to approximately RMB197,400,000 (2003: RMB139,138,000) are secured by the pledge of certain of the Group's deposits amounting to approximately RMB54,382,000 (2003: deposits of RMB74,113,000 and bills receivable of RMB16,000,000).

As at 31 December 2003, the Company's bills payables amounting to approximately RMB87,573,000 are secured by the pledge of certain deposits of the Company amounting to approximately RMB60,929,000, certain bills receivable of the Company amounting to RMB15,000,000 and the corporate guarantee provided by a subsidiary of the Company.

Included in the trade and bills payables of the Group and the Company are trade payables to associates aggregating RMB13,817,000 (2003: RMB59,432,000) and RMB10,913,000 (2003: RMB38,246,000), respectively.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 28. OTHER PAYABLES AND ACCRUALS

	Notes	Group		Company	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Accruals and other liabilities		<b>288,636</b>	339,237	<b>129,133</b>	166,841
Provision for product warranties	29	<b>7,914</b>	7,502	<b>2,202</b>	2,202
Due to the Holding	24	<b>65,168</b>	8,458	<b>43,693</b>	—
		<b>361,718</b>	355,197	<b>175,028</b>	169,043

Included in other liabilities of the Group was an amount due to the minority shareholder of a subsidiary of the Group of RMB2,679,000 (2003: Nil). Such balance is unsecured, interest-free and has no fixed terms of repayment.

## 29. PROVISION FOR PRODUCT WARRANTIES

	Group RMB'000	Company RMB'000
At beginning of year	7,502	2,202
Additional provision	29,042	2,113
Amounts utilised during the year	(28,630)	(2,113)
At 31 December 2004	<b>7,914</b>	<b>2,202</b>

The Group provides one-year warranties to its customers on certain of its products 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 products 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

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## 30. CUSTOMER DEPOSITS

	Group	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Deposits from the Holding	32,407	42,880
Deposits from associates	77,323	181,373
Deposits from related companies	18,557	24,543
Deposits from customers	91,420	108,591
	<u>219,707</u>	<u>357,387</u>

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	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Repayable:		
On demand	176,907	329,695
Three months or less	—	—
One year or less but over three months	42,800	27,692
	<u>219,707</u>	<u>357,387</u>

## 31. INTEREST-BEARING BANK LOANS

	Group		Company	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Bank loans:				
Secured	24,000	42,000	—	—
Unsecured	72,660	23,297	20,000	—
	<u>96,660</u>	<u>65,297</u>	<u>20,000</u>	<u>—</u>

All of the above bank loans of the Group and the Company as at 31 December 2004 and 31 December 2003 are repayable within one year.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 31. INTEREST-BEARING BANK LOANS *(continued)*

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

- (i) the Group's certain buildings and machinery with an aggregate net carrying value of approximately RMB27,417,000 (2003: RMB27,779,000) (note 13);
- (ii) corporate guarantees provided by the Company and certain subsidiaries of the Group, including FTGF;
- (iii) guarantees provided by a minority shareholder of a subsidiary and the holding company of the aforesaid minority shareholder, up to RMB11 million (2003: Nil) and RMB8.6 million (2003: Nil), respectively, as at the balance sheet date; and
- (iv) land use right of a minority shareholder of a subsidiary.

In addition, the Group's associate, YLDC guaranteed the Company's bank loans up to RMB20,000,000 (2003: Nil) as at the balance sheet date.

Further to the pledges of buildings and machinery as disclosed above, the Group's time deposits of approximately RMB13,233,000 and inventories of approximately RMB8,967,000 were also pledged to secure certain short term bank loans of the Group as at 31 December 2003.

## 32. DEFERRED TAX

### **Deferred tax liabilities**

No deferred tax liabilities of the Group were recognised for the year ended 31 December 2004 and 2003. 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 32. DEFERRED TAX *(continued)*

### Deferred tax assets

No deferred tax assets of the Group were recognised for the years ended 31 December 2004 and 2003.

The principal components of the Group's deductible temporary differences and unused tax losses for which no deferred tax assets are recognised in the financial statements are as follows:

Group	2004	2003
	RMB'000	RMB'000
Tax losses	226,885	174,822
Assets provision	21,191	43,054
Other deductible temporary differences	76,421	114,056
	<u>324,497</u>	<u>331,932</u>

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 are insignificant.

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

## 33. SHARE CAPITAL

	Company	
	2004	2003
	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 of the Company during the years ended 31 December 2004 and 2003.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 34. 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 2003	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 and beginning of year	1,378,840	61,699	62,749	1,759	1,515	(226,392)	1,280,170
Net profit for the year	—	—	—	—	—	11,961	11,961
Transfer from/(to) reserves	—	3,898	422	639	1,459	(6,418)	—
At 31 December 2004	<u>1,378,840</u>	<u>65,597</u>	<u>63,171</u>	<u>2,398</u>	<u>2,974</u>	<u>(220,849)</u>	<u>1,292,131</u>
Reserves retained by:							
Company and subsidiaries	1,378,840	64,058	62,401	2,398	2,154	(194,469)	1,315,382
Associates	—	1,539	770	—	820	(26,380)	(23,251)
31 December 2004	<u>1,378,840</u>	<u>65,597</u>	<u>63,171</u>	<u>2,398</u>	<u>2,974</u>	<u>(220,849)</u>	<u>1,292,131</u>
Company and subsidiaries	1,378,840	60,946	62,372	1,759	1,515	(200,441)	1,304,991
Associates	—	753	377	—	—	(25,951)	(24,821)
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>

Certain amounts of goodwill and negative goodwill arising on the acquisition of subsidiaries and an associate 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 certain subsidiaries, which are registered in the PRC, have been transferred to the reserve fund and enterprise expansion fund, which are restricted as to use.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 34. 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 2003	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 and beginning of year	1,378,840	48,388	48,388	(288,150)	1,187,466
Net profit for the year	—	—	—	29,435	29,435
At 31 December 2004	1,378,840	48,388	48,388	(258,715)	1,216,901

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 did not utilise any of the SSR or PWF.

During the year, the subsidiaries' aggregate appropriations to the SSR, PWF, reserve fund and enterprise expansion fund, as dealt with in the Group's financial statements, were RMB3,112,000 (2003: RMB1,491,000), RMB29,000 (2003: RMB2,917,000), RMB639,000 (2003: RMB587,000) and RMB639,000 (2003: RMB587,000), respectively. The associates' appropriation to each of the SSR, PWF and enterprise expansion fund during the year, as dealt with in the Group's financial statements were RMB786,000 (2003: RMB753,000), RMB393,000 (2003: RMB377,000) and RMB820,000 (2003: Nil), respectively.

As at 31 December 2004, the Company had no retained profits (2003: Nil) available for distribution by way of cash or in kind.

As at 31 December 2004, in accordance with the Company Law of the PRC, an amount of approximately RMB1.38 billion (2003: RMB1.38 billion) standing to the credit of the Company's share premium account was available for distribution by way of future capitalisation issues.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Disposal of subsidiaries

	Notes	2004 RMB'000	2003 RMB'000
Net assets disposed of:			
Fixed assets		—	17,635
Construction in progress		—	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)
		—	(39,490)
Gain on disposal of subsidiaries	5, 6	—	41,000
		—	1,510
Satisfied by:			
Cash		—	1,510



# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

*(continued)*

### (a) Disposal of subsidiaries *(continued)*

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

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Cash consideration	—	1,510
Cash and bank balances disposed of	—	(34,296)
	<hr/>	<hr/>
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	—	(32,786)
	<hr/>	<hr/>

The subsidiaries disposed of during the year ended 31 December 2003 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.

### (b) Major non-cash transactions

The non-cash capital contributions made by the minority shareholders of the subsidiaries of the Group during the year were in the form of non-current assets valued at RMB14,739,000, non-cash current assets valued at RMB34,593,000, and current liabilities of RMB21,019,000.

## 36. RETIREMENT BENEFITS

The Group participates in the central pension scheme operated by the local municipal government and is required to contribute 20% to 25% (2003: 23% to 25%) of the payroll costs to the central pension scheme, out of which the pensions of the Group's retired employees are paid.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 37. CONTINGENT LIABILITIES

- (a) As at 31 December 2004, the Holding and FTGF, a subsidiary, had jointly given guarantee to the extent of RMB52 million (2003: Nil) to a financial institution for securing the loans to Yituo (Luoyang) Fuel Jet Co. Ltd. ("YLFJ"), a subsidiary of the Holding.
- (b) As at 31 December 2004, the Company had given corporate guarantees of approximately RMB248.7 million (2003: RMB179.5 million) and RMB201.4 million (2003: Nil) to FTGF and certain banks, respectively, for securing banking facilities granted to certain subsidiaries. The facilities were utilised to the extent of approximately RMB450.1 million (2003: RMB201.5 million). Such contingent liabilities were not provided for in the Company's financial statements.
- (c) As at 31 December 2003, FTGF had given guarantees to the extent of RMB3,210,000 to a bank for securing performance bonds 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 FTGF's time deposits of RMB3,210,000. Yituo-Made had placed deposits of RMB3,210,000 with FTGF for securing the aforesaid guarantee provided by FTGF to the bank. Such guarantees were released during the year.

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

## 38. 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 2004, 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	
	2004	2003
	RMB'000	RMB'000
Within one year	1,633	1,814
In the second to fifth years, inclusive	4,817	6,725
	<u>6,450</u>	<u>8,539</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 38. OPERATING LEASE ARRANGEMENTS *(continued)*

### (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 2004, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Within one year	<b>8,013</b>	6,876	<b>6,000</b>	5,000
In the second to fifth years, inclusive	<b>27,985</b>	26,603	<b>23,000</b>	20,000
After five years	<b>200,858</b>	215,693	<b>186,795</b>	191,795
	<b>236,856</b>	249,172	<b>215,795</b>	216,795

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 39. COMMITMENTS

### (a) Capital commitments

In addition to the operating lease commitments detailed in note 38(b) above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Contracted, but not provided for:				
Purchase of land use right	—	2,483	—	—
Purchase of plant and machinery	<b>102,386</b>	81,369	<b>95,822</b>	79,758
Investment in a subsidiary	—	—	—	5,200
	<b>102,386</b>	83,852	<b>95,822</b>	84,958
Authorised, but not contracted for:				
Purchase of plant and machinery	<b>174,871</b>	65,506	<b>173,041</b>	65,506
Investment in an associate	—	800	—	800
Additional capital contribution into a subsidiary	—	—	<b>159,075</b>	159,075
Investments in joint ventures	<b>7,550</b>	—	<b>7,300</b>	—
	<b>182,421</b>	66,306	<b>339,416</b>	225,381
	<b>284,807</b>	150,158	<b>435,238</b>	310,339

### (b) Commitment under a 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 a 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. The contract expired during the year and a gain of approximately RMB4,000 was recognised in the profit and loss account. There is no unexpired foreign exchange contract as at 31 December 2004.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 40. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

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

	Notes	2004 RMB'000	2003 RMB'000
Sale of raw materials and components	(i)	314,533	186,088
Purchases of raw materials and components	(i)	502,539	332,871
Purchases of utilities	(ii)	127,059	110,249
Fees paid for welfare and support services	(iii)	20,542	22,239
Purchases of transportation services	(iii)	10,343	9,886
Research and development expenses paid	(iv)	6,149	3,897
Fees paid for the use of land	(v)	5,000	5,000
Fees paid for the use of trademark	(vi)	6,743	3,897
Rentals paid in respect of:			
Buildings	(vii)	1,263	1,987
Plant and machinery	(vii)	2,339	2,473
Rental income received in respect of			
plant and machinery	(viii)	4,274	—
Sale of plant and machinery	(ix)	13,062	5,422
Purchases of plant and machinery	(x)	2,911	5,401
Interest income, inclusive of			
discounted bill charges	(xi)	22,446	9,641
Interest paid for customer deposits	(xii)	707	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), YLCF (where the Holding holds a 50% equity interest) and YEMC (where YLDC holds a 50% interest).

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 40. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Particulars of the significant transactions carried out between the Group and YLDC, YLCF and YEMC, during the year are summarised as follows:

	Notes	2004 RMB'000	2003 RMB'000
Sale of raw materials and components	(i)	182,179	72,032
Purchases of raw materials and components	(i)	254,044	145,547
Rental income in respect of plant and machinery	(viii)	4,274	—
Sale of plant and machinery	(ix)	11,397	—
Interest income, inclusive of discounted bill charges	(xi)	3,932	1,770
Interest paid for customer deposits	(xii)	109	192

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

	Notes	2004 RMB'000	2003 RMB'000
Sale of raw materials and components	(i)	5,321	—
Interest paid for customer deposits	(xii)	1,925	—

(b) The significant transactions carried out between Yituo Qingjiang Tractor Company Limited ("YTQT") (the Company's ex-subsiary) and its minority shareholder up to date of the Group's disposal of YTQT in 2003 are summarised as follows:

	Notes	2004 RMB'000	2003 RMB'000
Sale of raw materials and components	(i)	—	1,620
Purchases of raw materials and components	(i)	—	10,011
Sale of utilities	(ii)	—	407

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 40. RELATED PARTY TRANSACTIONS *(continued)*

- (c) The significant transactions carried out between ZHHRM and ZHAM and their minority shareholder and the holding company of the aforesaid minority shareholder during the year are summarised as follows:

	Notes	2004 RMB'000	2003 RMB'000
Sale of finished goods and components	(xiii)	800	—
Purchases of raw materials and components	(xiii)	1,651	—
Fees paid for the use of trademark	(xiv)	400	400
Rentals paid in respect of:			
Plant and machinery	(xv)	200	228
Land	(xv)	920	920
Buildings	(xv)	500	500
Fees paid for support services	(xvi)	100	100
Management fees paid	(xvi)	350	800

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

	Note	2004 RMB'000	2003 RMB'000
Sale of standard parts and components	(xiii)	5,260	—

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 indexes, 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 indexes, 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 indexes, whichever is lower.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 40. RELATED PARTY TRANSACTIONS *(continued)*

Notes: *(continued)*

- (iv) Pursuant to relevant agreements, the pricing in respect of routine research and development services is calculated at a rate of 0.2% (2003: 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 (2003: RMB5 million) subject to a further land rental adjustment announced by the relevant state land administration authorities.
- (vi) Pursuant to relevant agreements, the pricing for the use of the trademark is charged at a rate of 0.2% (2003: 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 rental of plant and machinery is received with reference to the depreciation of the relevant assets.
- (ix) The pricing of the sale 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 loans receivable and bills discounted receivable as at the balance sheet date are set out in notes 19 and 22 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 30 to the financial statements.
- (xiii) These transactions were conducted according to the prices and conditions, mutually agreed between the Group and its minority shareholder.
- (xiv) Pursuant to the relevant agreement, the annual fee paid for the use of trademark is RMB400,000 for the years from 2000 to 2005.
- (xv) Pursuant to relevant agreements, the annual fee paid for the rental of plant and machinery, land and buildings are RMB200,000 (2003: RMB228,000), RMB920,000 (2003: RMB920,000), and RMB500,000 (2003: RMB500,000) respectively.
- (xvi) Pursuant to relevant agreements, the annual fee paid for the support services and management services are RMB100,000 (2003: RMB100,000) and RMB350,000 (2003: RMB800,000), respectively.



# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 40. RELATED PARTY TRANSACTIONS *(continued)*

- (e) Designated deposits and designated loans

As at 31 December 2004, the Holding placed a designated deposit of RMB1 million (2003: Nil) in FTGF for lending to YLCF.

As at 31 December 2003, an independent third party placed a designated deposit of RMB2 million in FTGF for lending to the Holding. Further, YLCF placed a designated deposit of RMB1 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.

- (f) As at 31 December 2004, the Holding and FTGF jointly provided guarantee to the extent of RMB52,000,000 (2003: Nil) to a financial institution for securing the loans to YLFJ, a subsidiary of the Holding.

As at 31 December 2003, FTGF provided guarantees to the extent of RMB3,210,000 to a bank for securing certain performance bonds issued on behalf of Yituo-Made by that bank. Such guarantees were released in 2004.

- (g) Further details of the trade receivables and trade payable balances with related parties are set out in notes 21 and 27 to the financial statements, respectively.

- (h) On 3 March 2004, the Company entered into a Promoter agreement with the Holding to establish Yituo (Louyang) Dongfanghong Tyre Company Limited ("YLDT"). The registered capital of YLDT is RMB2 million, of which the percentage of equity interests in YLDT held by the Company and the Holding are 40% and 60%, respectively.

- (i) On 9 April 2004, the Company entered into a Promoter agreement with the Holding and 46 other individuals to establish YLST. The registered capital of YLST is RMB13 million, of which the percentage of equity interests in YLST held by the Company, the Holding and 46 other individuals are 50%, 24% and 26%, respectively. The Holding conferred its 24% voting rights in the shareholders' meeting of YLST to the Company. Therefore, the Company can exercise control over the financial and operating policies of YLST.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 40. RELATED PARTY TRANSACTIONS *(continued)*

- (j) During the year ended 31 December 2003, 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. As at 31 December 2004, the Holding had repaid such deposit to the Company.

During the year ended 31 December 2004, an aggregate sum of funds in the amount of the government-assisted loan of RMB81 million was received by the Holding and thereafter remitted by the Holding to the Company. As at 31 December 2004, the aforesaid aggregate sum of RMB81 million was refunded to the Holding.

- (k) During 2003, the Company established a joint venture, 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 amounted 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.
- (l) 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.

- (m) 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 40. RELATED PARTY TRANSACTIONS *(continued)*

- (n) 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, sale 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 party.

## 41. 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 27, 31 and 37(c), respectively, to the financial statements.

## 42. POST BALANCE SHEET EVENT

Yituo (Luoyang) Agricultural Tools Company Limited ("YLAT") was established in January 2005 engaging in the manufacture and sale of mechanical agricultural tools and miscellaneous machine components. The registered capital of YLAT was RMB10,000,000, of which RMB7,300,000 (constituting 73% thereof) was contributed by the Company in the form of cash and the remaining RMB2,700,000 (constituting 27% thereof) was contributed by other parties in form of cash and machinery.

## 43. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

## 44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 April 2005.