1. CORPORATE INFORMATION

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

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

- manufacture and sale of agricultural machinery
- manufacture and sale of construction machinery
- manufacture and sale of biochemical products

In the opinion of the directors, the parent and the ultimate holding company of the Group is China Yituo Group Corporation Limited (the "Holding"), which is established in the PRC.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 certain equity investments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. 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.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 30	Disclosure in the Financial Statements of Banks and Similar Financial Institutions
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 23, 27, 28, 30, 33, 37, 38 and HKFRS 5 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior periods, the Group's share of tax attributable to associates was presented as a component of the Group's total tax charge/(credit) in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates is presented net of the Group's share of tax attributable to associates.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 - Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land premiums, while buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the consolidated income statement and accumulated losses. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(b) HKAS 32 and HKAS 39 - Financial Instruments

(i) Equity securities

In prior years, the Group classified its investments in equity securities as long term investments, which were held for non-trading purposes and were stated at their fair values on an individual basis with gains and losses recognised as movements in the investment revaluation reserve. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 are designated as available-for-sale investments under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

In prior years, the Group classified its investments in equity securities for trading purposes as short term investments, and were stated at their fair values on an individual basis with gains and losses recognised in the income statement. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 are designated as financial assets at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised in the income statement.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity securities. Comparative amounts have been reclassified for presentation purposes.

(ii) Loans receivables

In prior years, loans receivable arising from financial operations of the Group were reported in the balance sheet at the principal amount outstanding net of provision for loans receivable. Specific provisions and general provisions were made for loans receivable by applying various percentages to the loans receivable balance classified as pass, special mention, substandard, doubtful and loss.

Upon the adoption of HKAS 39, loans receivables are measured at amortised cost where the carrying amount of the asset is computed by discounting the future cash flows to the present value using the original effective interest rate. The previous approach of maintaining specific and general provisions is replaced with individual and collective impairment allowances after the adoption of HKAS 39. Where objective evidence of impairment exists, the recoverable amount of an asset is calculated by discounting the future cash flows to the present value using the original effective interest rate taking into account the value of collateral, if any. The difference between the carrying amount and the recoverable amount of the asset is recognised as impairment. Where there is no objective evidence of impairment, impairment is assessed collectively based on expected cash flows and historical loss experience.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(b) HKAS 32 and HKAS 39 - Financial Instruments *(continued)*

(ii) Loans receivables *(continued)*

This change in accounting policy has had no material effect on the consolidated income statement and consolidated balance sheet.

(c) HKFRS 3 - Business Combinations and HKAS 36 - Impairment of Assets

In prior years, goodwill and negative goodwill arising on acquisitions prior to 1 January 2001 were eliminated against the consolidated retained profits and credited to the consolidated capital reserve, respectively, in the year of acquisition and were not recognised in the income statement until disposal or impairment of the acquired businesses.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill to the extent of the fair value of the acquired non-monetary assets was carried in the balance sheet and was recognised in the consolidated income statement 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 income statement was included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to derecognise at 1 January 2005 the carrying amount of negative goodwill (including that remaining in the consolidated capital reserve) against retained profits. Goodwill previously eliminated against the retained earnings remains eliminated against the retained earnings and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5 and HK(IFRIC)-Int 6 do not apply to the activities of the Group. HK(IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

	Effect of adopting			
At 1 January 2005	HKAS 17#	HKFRS 32# and 39*	HKFRS 3*	
Effect of new policies (Increase/(decrease))	Prepaid land premiums	Change in classification of equity investments	Derecognition of negative goodwill	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Property, plant and equipment	(7,747)	—	—	(7,747)
Prepaid land premiums	7,747	—	—	7,747
Negative goodwill	—	—	1,758	1,758
Interests in associates	—	—	4,243	4,243
Available-for-sale equity investments	—	67,794	—	67,794
Long term investments	—	(67,794)	—	(67,794)
Equity investments at fair value through profit or loss	—	19,661	—	19,661
Short term investments	—	(19,661)	—	(19,661)
				6,001
Liabilities/equity				
Retained profits/(accumulated losses)	—	—	5,581	5,581
Minority interests	—	—	420	420
				6,001

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

(a) Effect on the consolidated balance sheet *(continued)*

	Effect of adopting			
At 31 December 2005	HKAS 17#	HKFRS 32# and 39*	HKFRS 3*	
Effect of new policies (Increase/(decrease))	Prepaid land premiums	Change in classification of equity investments	Derecognition of negative goodwill	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Property, plant and equipment	(13,761)	—	—	(13,761)
Prepaid land premiums	13,761	—	—	13,761
Negative goodwill	—	—	1,524	1,524
Interests in associates	—	—	3,637	3,637
Available-for-sale equity investments	—	71,984	—	71,984
Long term investments	—	(71,984)	—	(71,984)
Equity investments at fair value through profit or loss	—	3,576	—	3,576
Short term investments	—	(3,576)	—	(3,576)
				5,161
Liabilities/equity				
Retained profits/(accumulated losses)	—	—	4,801	4,801
Minority interests	—	—	360	360
				5,161

* Adjustments taken effect prospectively from 1 January 2005

\# Adjustments/presentation taken effect retrospectively

(b) Effect on the balances of equity at 1 January 2004 and at 1 January 2005

The adoption of HKFRS 3 has reduced the accumulated losses of the Group as at 1 January 2005 by RMB5,581,000 and increased the minority interests by RMB420,000.

In accordance with the relevant transitional provisions of the HKFRSs, the adoption of the HKFRSs did not result in retrospective adjustments being made to the opening balances of equity at 1 January 2004.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

(c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

Effect of new policies	Effect of adopting HKAS 1 Share of post-tax profits and losses of associates	Effect of adopting HKFRS 3 Discontinuation of recognition of negative goodwill as income	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2005			
Decrease in other income and gains	—	(234)	(234)
Decrease in negative goodwill on acquisition of an associate recognised as income during the year	—	(606)	(606)
Decrease in share of profits and losses of associates	(5,173)	—	(5,173)
Decrease in tax	5,173	—	5,173
Total decrease in profit	—	(840)	(840)
Decrease in basic earnings per share	—	(0.11) cents	(0.11) cents
Year ended 31 December 2004			
Decrease in share of profits and losses of associates	(4,710)	—	(4,710)
Decrease in tax	4,710	—	4,710
Total increase/(decrease) in profit	—	—	—
Increase/(decrease) in basic earnings per share	—	—	—

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

Change in segment identification

During the year, the Group changed its identification of reportable business segments. The Group consolidated its previous six business segments, namely, "Tractors", "Road machinery", "Construction machinery", "Harvesting machinery", "Financial operations" and "Others" into four new business segments, namely, "Agricultural machinery", "Construction machinery", "Financial operations"and "Others". Further information of the four new business segments is detailed in note 4 to the financial statements. In the opinion of the directors, the new basis of segment identification provides a more appropriate presentation of the segment information. Prior year segment information is restated for comparative purposes.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture 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 entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

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

(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;

(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's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Associates

An associate is an entity, 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 income statement 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 income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair values of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005 *(continued)*

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of SSAP 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated retained profits and is not recognised in profit or loss when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Excess over the cost of business combinations (applicable to business combinations for which the agreement date is on or after 1 January 2005)

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and associates (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The excess for associates is included in the Group's share of the associates' profit or loss in the period in which the investments are acquired.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that 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 such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment over its estimated useful life, after taking into account its estimated residual value. The estimated useful lives of property, plant and equipment are as follows:

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised 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 and other property, plant and equipment 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 period 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 property, plant and equipment when completed and ready for use.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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 income statement 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 income statement on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Applicable to the year ended 31 December 2004:

The Group classified its equity investments, other than subsidiaries and associates, as long term investments and short term investments.

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 recent 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Applicable to the year ended 31 December 2004: *(continued)*

Long term investments *(continued)*

The gains or losses arising from changes in the fair value of a security are dealt with as movements in the 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 investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement 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 income statement 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 income statement in the period in which they arise.

Applicable to the year ended 31 December 2005:

The Group's financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Applicable to the year ended 31 December 2005: *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (applicable to the year ended 31 December 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Where there is no reasonable prospect of recovery, the loan is written off.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (applicable to the year ended 31 December 2005) *(continued)*

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

Derecognition of financial assets (applicable to the year ended 31 December 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Customer deposits

Customer deposits arising from the Group's financial operations are carried at amortised cost using the original effective interest method taking into account the unamortised portion of relevant fees and expenses.

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

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 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.

2.5 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. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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 that is not a business combination 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 and associates, 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits 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 credits 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 in a transaction that is not a business combination 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 and associates, 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 reassessed at each balance sheet date and 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.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

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

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

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

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

Employee benefits

Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal governments in the PRC. The municipal governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

Early retirement benefits

Termination benefits are payable whenever an employee's employment is terminated involuntarily before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for the benefits. The Group recognises termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of an overseas subsidiary is currency other than the RMB. As at the balance sheet date, the assets and liabilities of this entity are translated into the presentation currency of the Company at the exchange rate ruling at the balance sheet date and its income statement is translated into RMB at the weighted average exchange rate for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of the overseas subsidiary are translated into RMB at the exchange rate ruling at the date of the cash flows. Frequently recurring cash flows of the overseas subsidiary which arise throughout the year are translated into RMB at the weighted average exchange rate for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments - Group as lessor

The Group has entered into property leases on its property, plant and equipment. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives. The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount.

Impairment of receivables

The policy for impairment of receivables of the Group is based on the evaluation of collectability and aging analysis of trade receivables and on the judgement of the management. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of the customers. Management reassesses the estimation on each of the balance sheet date.

Provision against obsolete inventories

Management reviews the condition of inventories of the Group and makes provision against obsolete and slow-moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at each balance sheet date and makes provision against obsolete items. Management reassesses the estimation on each of the balance sheet date.

Provision for product warranties

Provision for product warranties is estimated based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate. Factors considered in the estimation included the unit rate charged by repair centres, number of units of products and components already sold which may require repairs and maintenance, and the miscellaneous expenditures which may be incurred, etc.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Provision for early retirement benefits

The benefits of the early retirement plans are estimated based on factors including the remaining number of years of service from the date of early retirement to the normal retirement date and with reference to historical salaries of such early retirees, discounted to their present values as appropriate.

Income tax

The Group is subject to income taxes in various regions within the PRC. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision of income taxes to be made. Where the final tax outcome of these matters are different from the amounts originally recorded, the differences will impact on the income tax and tax provisions in the period in which the differences realise.

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. As detailed in note 2.4 to the financial statements, the Group adopted a new segment reporting basis and consolidated its businesses into four new business segments during the year. Summary details of the four new business segments are as follows:

(a) the "Agricultural machinery" segment engages in the manufacture and sale of agricultural machinery, including tractors, harvesters, relevant parts and components;

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

4. SEGMENT INFORMATION *(continued)*

(c) the "Financial operations" segment engages in the provision of loan lending, bills discounting and deposit-taking services; and

(d) the "Others" segment comprises, principally, the manufacture and sale of biochemical products.

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2005 and 2004.

Group	Agricultural machinery 2005 RMB'000	Agricultural machinery 2004 RMB'000 (Restated)	Construction machinery 2005 RMB'000	Construction machinery 2004 RMB'000 (Restated)	Financial operations 2005 RMB'000	Financial operations 2004 RMB'000 (Restated)	Others 2005 RMB'000	Others 2004 RMB'000 (Restated)	Eliminations 2005 RMB'000	Eliminations 2004 RMB'000 (Restated)	Consolidated 2005 RMB'000	Consolidated 2004 RMB'000 (Restated)
Segment revenue												
Sales to external customers	**3,751,521**	3,064,060	**1,013,898**	1,182,482	**—**	—	**409**	12	**—**	—	**4,765,828**	4,246,554
Intersegment revenue	**285,549**	223,071	**46,692**	11,326	**15,373**	13,187	**—**	—	**(347,614)**	(247,584)	**—**	—
Other income and gains	**—**	—	**—**	—	**33,480**	40,260	**—**	—	**—**	—	**33,480**	40,260
Total	**4,037,070**	3,287,131	**1,060,590**	1,193,808	**48,853**	53,447	**409**	12	**(347,614)**	(247,584)	**4,799,308**	4,286,814
Segment results	**23,254**	(8,194)	**(122,768)**	(27,379)	**33,477**	31,723	**(3,015)**	(5,909)	**—**	—	**(69,052)**	(9,759)
Interest, dividend and investment income and negative goodwill on acquisition of a subsidiary recognised as income											**8,640**	22,773
Gain on disposal of a subsidiary											**735**	—
Gain on disposal of an associate											**11,000**	—
(Provision)/reversal of provision for other receivable											**(9,220)**	17,720
Unallocated expenses											**(1,444)**	(2,517)
Finance costs											**(11,186)**	(9,719)
Share of profits and losses of associates	**7,589**	6,897	**—**	—	**—**	—	**(14,544)**	(2,188)	**—**	—	**(6,955)**	4,709
Negative goodwill on acquisition of an associate recognised as income during the year											—	606
Profit/(loss) before tax											**(77,482)**	23,813
Tax											**17,183**	(13,953)
Profit/(loss) for the year											**(60,299)**	9,860

4. SEGMENT INFORMATION *(continued)*

Group	Agricultural machinery 2005 RMB'000	Agricultural machinery 2004 RMB'000 (Restated)	Construction machinery 2005 RMB'000	Construction machinery 2004 RMB'000 (Restated)	Financial operations 2005 RMB'000	Financial operations 2004 RMB'000 (Restated)	Others 2005 RMB'000	Others 2004 RMB'000 (Restated)	Eliminations 2005 RMB'000	Eliminations 2004 RMB'000 (Restated)	Consolidated 2005 RMB'000	Consolidated 2004 RMB'000 (Restated)
Segment assets	**2,363,035**	1,896,969	**929,758**	1,143,748	**1,052,074**	920,176	**77,667**	78,306	**(826,411)**	(660,698)	**3,596,123**	3,378,501
Interest in associates	**—**	28,618	**—**	—	**—**	—	**98,726**	109,027	**—**	—	**98,726**	137,645
Unallocated assets											**126,781**	133,519
Total assets											**3,821,630**	3,649,665
Segment liabilities	**1,009,779**	712,678	**644,593**	734,236	**512,670**	402,644	**124,835**	124,456	**(826,411)**	(660,698)	**1,465,466**	1,313,316
Unallocated liabilities											**178,709**	99,573
Total liabilities											**1,644,175**	1,412,889
Other segment information:												
Capital expenditure	**147,658**	96,973	**35,426**	32,465	**125**	458	**339**	—	**—**	—	**183,548**	129,896
Depreciation	**65,053**	72,816	**18,641**	16,160	**567**	511	**677**	177	**—**	—	**84,938**	89,664
Impairment/(reversal of impairment) of items of property, plant and equipment and construction in progress, net	**7,637**	(23,054)	**9,353**	—	**—**	—	**2,661**	—	**—**	—	**19,651**	(23,054)
Provision and write-off of bad and doubtful debts, net	**2,448**	4,938	**20,650**	38,568	**—**	—	**—**	2,000	**—**	—	**23,098**	45,506
Provision/(reversal of provision) against obsolete inventories, net	**(215)**	(8,380)	**6,452**	15,328	**—**	—	**—**	500	**—**	—	**6,237**	7,448
Provision/(reversal of provision) for loans receivable, net	**—**	—	**—**	—	**(2,038)**	648	**—**	—	**—**	—	**(2,038)**	648

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's 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 revenue, other income and gains is as follows:

	Notes	2005 RMB'000	2004 RMB'000
Revenue			
Sale of goods		**4,765,828**	4,246,554
Other income			
Bank interest income		**7,460**	5,048
Interest income from financial operations		**26,982**	39,069
Profit from sundry sales		**29,046**	22,757
Rental income		**5,614**	6,985
Trademark licence fee		**—**	2,110
Investment income from short term listed investments		**—**	1,400
Dividend income from short term listed investments		**—**	1,061
Dividend income from unlisted available-for-sale equity investments/long term investments		**156**	501
Others		**21,339**	20,013
		90,597	98,944
Gains			
Gain on disposal of items of property, plant and equipment, net		**167**	320
Gain on disposal of a subsidiary	36	**735**	—
Gain on disposal of an associate		**11,000**	—
Gain on disposal of unlisted available-for-sale equity investments/long term investments		**—**	14,529
Gain on disposal of listed equity investments through profit or loss/short term investments, net		**1,024**	—
Negative goodwill on acquisition of a subsidiary recognised as income during the year	16	**—**	234
		12,926	15,083
		103,523	114,027

6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
Cost of inventories sold		**4,408,063**	3,905,535
Depreciation	13	**84,938**	89,664
Amortisation of prepaid land premiums	15	**188**	203
Impairment/(reversal of impairment) of construction in progress, net**	14	**6,990**	(7,802)
Impairment/(reversal of impairment) of items of property, plant and equipment, net**	13	**12,661**	(15,252)
Employee benefits expense (excluding directors' and supervisors' remuneration - note 8):			
Wages and salaries		**307,911**	285,586
Pension scheme contributions***		**65,333**	58,380
Provision for early retirement benefits	30	**23,896**	—
		397,140	343,966
Minimum lease payments under operating leases:			
Land and buildings		**11,906**	14,641
Plant and machinery		**3,803**	2,539
		15,709	17,180
Research and development costs		**27,640**	24,186
Auditors' remuneration		**4,264**	3,500
Provision for and write-off of bad and doubtful debts, net		**23,098**	45,506
Provision/(reversal of provision) for other receivable	24(i)	**9,220**	(17,720)
Net charge for impairment losses and allowances/ provision for loans receivable	20	**(2,038)**	648

6. PROFIT/(LOSS) BEFORE TAX *(continued)*

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
Net charge for impairment losses and allowances/ provision for bills discounted receivable	23	**358**	(237)
Interest expense on financial operations		**6,868**	11,244
Provision against obsolete inventories, net		**6,237**	7,448
Gain on disposal of items of property, plant and equipment, net		**(167)**	(320)
Fair value loss on equity investments at fair value through profit or loss/short term investments, net		**1,444**	1,837
Gain on disposal of a subsidiary*	36	**(735)**	—
Gain on disposal of an associate*		**(11,000)**	—
Foreign exchange differences, net		**600**	1,330
Investment income from short term listed investments		**—**	(1,400)
Dividend income from short term listed investments		**—**	(1,061)
(Gain)/loss on disposal of listed equity investments through profit or loss/short term investments, net		**(1,024)**	680
Dividend income from unlisted available-for-sale equity investments/long term investments		**(156)**	(501)
Gain on disposal of unlisted available-for-sale equity investments/long term investments		**—**	(14,529)
Bank interest income		**(7,460)**	(5,048)
Interest income from financial operations		**(26,982)**	(39,069)
Negative goodwill on acquisition of a subsidiary recognised as income during the year*	16	**—**	(234)
Gross rental income		**(5,614)**	(6,985)

* The gains on disposal of a subsidiary and an associate, and the movements in negative goodwill on acquisition of a subsidiary recognised in the income statement for the year are included in "Other income and gains" on the face of the consolidated income statement.

** The impairment/(reversal of impairment) of construction in progress and items of property, plant and equipment are included in "Other operating expenses, net" on the face of the consolidated income statement.

*** At 31 December 2005, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2004: Nil).

7. FINANCE COSTS

	Group	
	2005	2004
	RMB'000	*RMB'000*
Interest on bank and other loans wholly repayable within five years	**11,186**	9,719
Less: Interest capitalised	**—**	—
	11,186	9,719

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, is as follows:

	Group	
	2005	2004
	RMB'000	*RMB'000*
Fees	**—**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**600**	530
Performance related bonuses	**300**	265
Pension scheme contributions	**220**	199
	1,120	994
	1,120	994

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

(a) Independent non-executive directors

There was no remuneration paid and payable to the independent non-executive directors for their services rendered to the Company during the year (2004: Nil).

(b) Executive directors and supervisors

2005	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
Executive directors:					
Mr. Liu Dagong	—	46	23	17	86
Mr. Liu Wenying	—	46	23	17	86
Mr. Zhao Yanshui	—	46	23	17	86
Mr. Yan Linjiao	—	46	23	17	86
Mr. Li Tengjiao	—	46	23	17	86
Mr. Shao Haichen	—	46	23	17	86
Mr. Zhang Jing	—	46	23	17	86
Mr. Li Youji	—	46	23	17	86
Mr. Liu Shuangcheng	—	46	23	17	86
Mr. Zhao Fei	—	46	23	17	86
	—	460	230	170	860
Supervisors:					
Mr. Liu A Nan	—	28	14	10	52
Mr. Zhao Zhonghai	—	28	14	10	52
Mr. Xu Weilin	—	28	14	10	52
Ms. Wang Aiying	—	28	14	10	52
Mr. Shao Jiangxin	—	28	14	10	52
	—	140	70	50	260
	—	600	300	220	1,120

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

(b) Executive directors and supervisors *(continued)*

2004	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
Executive directors:					
Mr. Liu Dagong	—	42	21	16	79
Mr. Dong Yongan	—	34	16	13	63
Mr. Liu Wenying	—	42	21	16	79
Mr. Zhao Yanshui	—	42	21	16	79
Mr. Yan Linjiao	—	26	13	10	49
Mr. Li Tengjiao	—	42	21	16	79
Mr. Shao Haichen	—	42	21	16	79
Mr. Zhang Jing	—	42	21	16	79
Mr. Li Youji	—	8	4	3	15
Mr. Liu Shuangcheng	—	42	21	16	79
Mr. Zhao Fei	—	8	4	3	15
Mr. Huang Yanzhao	—	35	16	13	64
	—	405	200	154	759
Supervisors:					
Mr. Liu A Nan	—	25	13	9	47
Mr. Zhao Zhonghai	—	25	13	9	47
Mr. Xu Weilin	—	25	13	9	47
Ms. Wang Aiying	—	25	13	9	47
Mr. Shao Jiangxin	—	25	13	9	47
	—	125	65	45	235
	—	530	265	199	994

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2004: one) non-director employees, details of whose remuneration are as follows:

	Group	
	2005	2004
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**200**	35
Performance related bonuses	**105**	45
Pension scheme contributions	**15**	6
	320	86

All of the remaining three (2004: four) highest paid employees for the year are directors of the Company, details of whose remuneration are set out in note 8 above.

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

	Number of employees	
	2005	2004
Nil to HK$1,000,000	**2**	1

10. TAX

	2005	2004
	RMB'000	*RMB'000*
		(Restated)
Group:		
Current - PRC corporate income tax		
Charge for the year	**10,811**	15,185
Under/(over) provision in prior years	**241**	(1,232)
Deferred tax (note 33)	**(28,235)**	—
Total tax charge/(credit) for the year	**(17,183)**	13,953

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the two years ended 31 December 2005 and 2004.

10. TAX *(continued)*

The PRC corporate income tax for the Company and its subsidiaries is calculated at rates ranging from 10% to 33% (2004: 10% 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 (2004: Nil).

The share of tax attributable to associates amounting to RMB5,173,000 (2004: RMB4,710,000), is included in "Share of profits and losses of associates" on the face of the consolidated income statement. The PRC corporate income tax of the associates is calculated at rates ranging from 15% to 33% (2004: 15% to 33%) on the respective company's assessable profits determined in accordance with the relevant PRC laws and regulations.

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rate for the locations in which the Company and the majority of its subsidiaries 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			
	2005		2004	
	RMB'000	**%**	*RMB'000* *(Restated)*	%
Profit/(loss) before tax	**(77,482)**		23,813	
Tax at PRC statutory tax rate	**(25,569)**	**33**	7,858	33
Lower tax rate for specific provinces or local authority	**(2,139)**	**3**	(5,817)	(24)
Adjustments in respect of current tax of previous periods	**241**	**—**	(1,232)	(5)
Profits and losses attributable to associates	**2,295**	**(3)**	(1,754)	(7)
Income not subject to tax	**(395)**	**1**	(13,696)	(58)
Expenses not deductible for tax	**34,445**	**(45)**	11,413	48
Tax losses utilised from previous periods	**(57,664)**	**74**	(7,047)	(30)
Tax losses not recognised	**31,603**	**(41)**	24,228	102
Tax charge/(credit) at the Group's effective rate	**(17,183)**	**22**	13,953	59

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company was RMB91,181,000 (2004: RMB29,435,000) (note 35(b)).

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings/(loss) per share amounts is based on the net loss for the year attributable to ordinary equity holders of the parent of RMB50,436,000 (2004: net profit of RMB11,961,000), and the weighted average number of 785,000,000 (2004: 785,000,000) ordinary shares in issue during the year.

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

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Plant, machinery and equipment	Transportation vehicles and equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2005				
At 31 December 2004 and at 1 January 2005:				
Cost	788,703	1,229,634	52,297	2,070,634
Accumulated depreciation and impairment	(444,318)	(825,727)	(19,516)	(1,289,561)
Net carrying amount	344,385	403,907	32,781	781,073
At 1 January 2005, net of accumulated depreciation and impairment	344,385	403,907	32,781	781,073
Additions	2,572	4,625	7,561	14,758
Disposals	(7,075)	(6,133)	(4,080)	(17,288)
Disposal of a subsidiary (note 36)	(1,374)	(5,471)	(242)	(7,087)
Contributions by minority interests as capital of a subsidiary	—	1,807	193	2,000
Impairment	(5,017)	(6,294)	(1,350)	(12,661)
Depreciation provided during the year	(26,675)	(53,953)	(4,310)	(84,938)
Transfer from construction in progress (note 14)	53,275	52,007	4,004	109,286
At 31 December 2005, net of accumulated depreciation and impairment	360,091	390,495	34,557	785,143
At 31 December 2005:				
Cost	833,481	1,232,133	56,029	2,121,643
Accumulated depreciation and impairment	(473,390)	(841,638)	(21,472)	(1,336,500)
Net carrying amount	360,091	390,495	34,557	785,143

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group

	Buildings	Plant, machinery and equipment	Transportation vehicles and equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2004				
At 1 January 2004:				
Cost	762,831	1,230,017	76,650	2,069,498
Accumulated depreciation and impairment	(423,695)	(838,784)	(38,601)	(1,301,080)
Net carrying amount	339,136	391,233	38,049	768,418
At 1 January 2004, net of accumulated depreciation and impairment	339,136	391,233	38,049	768,418
Additions	5,078	11,377	8,599	25,054
Disposals	(3,498)	(20,402)	(3,520)	(27,420)
Reclassifications	(326)	13,112	(12,786)	—
Contributions by minority interests as capital of subsidiaries	5,101	7,271	2,367	14,739
Reversal of impairment recognised in the income statement during the year	—	15,252	—	15,252
Depreciation provided during the year	(24,240)	(61,657)	(3,767)	(89,664)
Transfer from construction in progress (note 14)	23,134	47,721	3,839	74,694
At 31 December 2004, net of accumulated depreciation and impairment	344,385	403,907	32,781	781,073
At 31 December 2004:				
Cost	788,703	1,229,634	52,297	2,070,634
Accumulated depreciation and impairment	(444,318)	(825,727)	(19,516)	(1,289,561)
Net carrying amount	344,385	403,907	32,781	781,073

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Company

	Buildings	Plant, machinery and equipment	Transportation vehicles and equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2005				
At 31 December 2004 and at 1 January 2005:				
Cost	577,756	1,042,399	19,659	1,639,814
Accumulated depreciation and impairment	(367,566)	(738,440)	(10,938)	(1,116,944)
Net carrying amount	210,190	303,959	8,721	522,870
At 1 January 2005, net of accumulated depreciation and impairment	210,190	303,959	8,721	522,870
Additions	1,510	—	189	1,699
Disposals	(2,938)	(604)	(854)	(4,396)
Depreciation provided during the year	(19,006)	(42,305)	(1,688)	(62,999)
Transfer from construction in progress (note 14)	24,897	37,506	3,230	65,633
At 31 December 2005, net of accumulated depreciation and impairment	214,653	298,556	9,598	522,807
At 31 December 2005:				
Cost	599,384	1,037,585	19,465	1,656,434
Accumulated depreciation and impairment	(384,731)	(739,029)	(9,867)	(1,133,627)
Net carrying amount	214,653	298,556	9,598	522,807

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Company

	Buildings *RMB'000*	Plant, machinery and equipment *RMB'000*	Transportation vehicles and equipment *RMB'000*	Total *RMB'000*
31 December 2004				
At 1 January 2004:				
Cost	583,665	1,114,478	19,921	1,718,064
Accumulated depreciation and impairment	(365,616)	(788,560)	(11,737)	(1,165,913)
Net carrying amount	218,049	325,918	8,184	552,151
At 1 January 2004, net of accumulated depreciation and impairment	218,049	325,918	8,184	552,151
Additions	1,083	4,490	1,051	6,624
Disposals	(4,990)	(19,155)	(1,059)	(25,204)
Reversal of impairment during the year recognised in the income statement during the year	—	15,252	—	15,252
Depreciation provided during the year	(18,007)	(51,627)	(1,652)	(71,286)
Transfer from construction in progress (note 14)	14,055	29,081	2,197	45,333
At 31 December 2004, net of accumulated depreciation and impairment	210,190	303,959	8,721	522,870
At 31 December 2004:				
Cost	577,756	1,042,399	19,659	1,639,814
Accumulated depreciation and impairment	(367,566)	(738,440)	(10,938)	(1,116,944)
Net carrying amount	210,190	303,959	8,721	522,870

At 31 December 2005, certain of the Group's buildings and machinery with an aggregate net carrying value of approximately RMB18,806,000 (2004: RMB27,417,000) were pledged to secure certain short term bank loans granted to the Group (note 32).

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Impairment loss recognised in the income statement during the year is summarised as follows:

	RMB'000
Construction machinery segment - note	10,000
Others	2,661
	12,661

Note: Due to the downturn in construction machinery market, certain items of property, plant and equipment in the construction machinery segment were written down to the recoverable amount. The recoverable amount was based on value in use and was determined at the cash-generating unit level. The cash-generating unit consists of the property, plant and equipment of Yituo (Luoyang) Building Machinery Co., Ltd. ("YBMC"), a subsidiary. In determining value in use for the cash-generating unit, the cash flows were discounted at a rate of 6% on a pre-tax basis.

During the year ended 31 December 2004, 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

	Group *RMB'000*	**Company** *RMB'000*
31 December 2005		
At 31 December 2004 and at 1 January 2005:		
Cost	113,500	83,198
Impairment	(7,162)	(5,972)
Net carrying amount	106,338	77,226
At 1 January 2005, net of impairment	106,338	77,226
Additions	162,588	134,668
Transfer to items of property, plant and equipment (note 13)	(109,286)	(65,633)
Disposal of a subsidiary (note 36)	(1,030)	–
Impairment recognised in the income statement during the year	(8,063)	(8,063)
Reversal of impairment recognised in the income statement during the year	1,073	427
At 31 December 2005, net of impairment	151,620	138,625
At 31 December 2005:		
Cost	165,622	152,233
Impairment	(14,002)	(13,608)
Net carrying amount	151,620	138,625

14. CONSTRUCTION IN PROGRESS *(continued)*

	Group *RMB'000*	Company *RMB'000*
31 December 2004		
At 1 January 2004:		
Cost	83,694	61,927
Impairment	(14,964)	(13,774)
Net carrying amount	68,730	48,153
At 1 January 2004, net of impairment	68,730	48,153
Additions	104,500	66,604
Transfer to items of property, plant and equipment (note 13)	(74,694)	(45,333)
Reversal of impairment recognised in the income statement during the year	7,802	7,802
At 31 December 2004, net of impairment	106,338	77,226
At 31 December 2004:		
Cost	113,500	83,198
Impairment	(7,162)	(5,972)
Net carrying amount	106,338	77,226

An impairment loss of RMB8,063,000 was recognised in the income statement during the year to write down certain construction in progress items of the agricultural machinery segment to their recoverable amounts. The recoverable amount estimation was determined at fair value less cost to sell at the individual assets level, which was based on the best information available to reflect the amount that was obtainable at each of the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs to disposal.

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

15. PREPAID LAND PREMIUMS

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Carrying amount at 1 January				
As previously reported	**—**	—	—	—
Effect of adopting HKAS 17 (note 2.2(a))	**7,747**	7,608	**—**	—
As restated	**7,747**	7,608	**—**	—
Additions	**6,202**	342	**2,160**	—
Amortisation recognised during the year	**(188)**	(203)	**(68)**	—
Carrying amount at 31 December	**13,761**	7,747	**2,092**	—

The leasehold land is held under medium term leases and is situated in the PRC.

16. GOODWILL AND NEGATIVE GOODWILL

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

Group	Negative goodwill *RMB'000*
31 December 2005	
At 1 January 2005:	
Cost as previously reported	2,344
Effect of adopting HKFRS 3 (note 2.2(c))	(2,344)
Cost as restated	—
Accumulated recognition as income as previously reported	586
Effect of adopting HKFRS 3 (note 2.2(c))	(586)
Accumulated recognition as income as stated	—
Net carrying amount	—
Cost and carrying amount at 1 January 2005 and 31 December 2005	—

16. GOODWILL AND NEGATIVE GOODWILL *(continued)*

Group	Negative goodwill *RMB'000*
31 December 2004	
At 1 January 2004:	
Cost	2,344
Accumulated recognition as income	(352)
Net carrying amount	1,992
Cost at 1 January 2004, net of accumulated recognition as income	1,992
Recognised as income during the year	(234)
At 31 December 2004	1,758
At 31 December 2004:	
Cost	2,344
Accumulated recognition as income	(586)
Net carrying amount	1,758

As further detailed in note 2.2 to the financial statements, the Group applied the transitional provision of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001 to remain eliminated against consolidated reserves.

The amount of goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries prior to the adoption of the SSAP 30 in 2001, was RMB39,844,000 as at 31 December 2004 and 31 December 2005. The amount of goodwill is stated at its cost.

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005	2004
	RMB'000	*RMB'000*
Unlisted investments, at cost	**698,847**	696,747
Impairment	**(53,695)**	(53,695)
	645,152	643,052

The loans to subsidiaries included in the Company's current assets of RMB52,000,000 (2004: RMB62,000,000), which are granted in the form of designated deposits through a financial institution subsidiary of the Company, are unsecured, bear interest at ranging from 5.31% to 6.70% (2004: 5.22% to 5.58%) per annum and are repayable within one year.

The amounts due from and due to subsidiaries included in the Company's current assets and current liabilities of RMB129,530,000 (2004: RMB130,570,000) and RMB5,101,000 (2004: RMB29,214,000), respectively, are unsecured, interest-free and have no fixed terms of repayment.

Deposits in a subsidiary are deposits placed by the Company in a financial institution subsidiary, except for a six-month time deposits of RMB10 million placed therein which bears interest at 1.88% per annum, all other deposits placed therein bear interest at a rate of 0.72% per annum and are repayable on demand.

The trading balances with subsidiaries are included in notes 22 and 29 to the financial statements.

The carrying amounts of these balances with subsidiaries approximate to their fair values.

17. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registere share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Brilliance China Machinery Holdings Limited 華晨中國機械控股有限公司	Bermuda	US$12,000	90.1	—	Investment holding
Yituo (Luoyang) Construction Machinery Co., Ltd.+ 一拖(洛陽)工程機械有限公司	PRC	US$9,980,000	49	46	Manufacture and sale of construction machinery
Yituo (Luoyang) Building Machinery Co., Ltd. (“YBMC”)+ 一拖(洛陽)建築機械有限公司	PRC	US$9,980,000	49	46	Manufacture and sale of road rollers and road construction machinery
Luoyang Changlun Agricultural Machinery Company Limited* # 洛陽長侖農業機械有限公司	PRC	RMB500,000	99	—	Trading of tractors
Yituo Shenyang Tractor Company Limited* # 一拖瀋陽拖拉機有限公司	PRC	RMB27,000,000	60	—	Manufacture and sale of tractors
Zhenjiang Huatong Aran Machinery Company Limited (“ZHAM”)+ 鎮江華通阿倫機械有限公司	PRC	US$1,000,000	—	53.2	Manufacture and sale of road construction machinery

17. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Zhenjiang Huachen Huatong Road Machinery Company Limited ("ZHHRM")+ 鎮江華晨華通路面機械有限公司	PRC	US$7,154,300	—	53.2	Manufacture and sale of road construction machinery
Yituo (Luoyang) Harvester Co., Ltd.* # 一拖(洛陽)收獲機械有限公司	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")* # 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 (i) 一拖(洛陽)建工機械有限公司	PRC	RMB18,303,000	35	—	Manufacture and sale of road rollers

17. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
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 sale of metallic components
Yituo (Luoyang) Shentong Construction Machinery Company Limited ("YLST")* # - note (ii) 一拖(洛陽)神通工程機械有限公司	PRC	RMB13,000,000	50	—	Manufacture and sale of construction machinery
Yituo (Luoyang) Lutong Construction Machinery Company Limited ("YLLT")* # - note (iii) 一拖(洛陽)路通工程機械有限公司	PRC	RMB58,000,000	—	43.7	Manufacture and sale of construction machinery
Yituo (Luoyang) Construction Machinery Trading Co., Ltd.* # 一拖(洛陽)工程機械銷售有限公司	PRC	RMB8,000,000	40	46.3	Trading of road rollers and construction machinery
Luoyang Changxing Agricultural Machinery Company Limited* # 洛陽長興農業機械有限公司	PRC	RMB3,000,000	70	30	Trading of tractors
Yituo (Luoyang) Agricultural Machinery and Tools Co., Ltd.* # ◇ 一拖(洛陽)機具有限公司	PRC	RMB10,000,000	73	—	Manufacture and sale of agricultural machinery and tools

17. INVESTMENTS IN SUBSIDIARIES *(continued)*

Notes:

(i) 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, each of such two shareholders has 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.

(ii) The percentages of equity interests in YLST held by the Company and the Holding are 50% and 24%, respectively. The Holding conferred all of 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.

(iii) Certain individual shareholders in aggregate holding a 5% equity interest of YLLT conferred all their voting rights in the shareholders' meeting of YLLT to YBMC (a 95% - owned subsidiary of the Group which in turn owned a 46% equity interest in YLLT), such that YBMC can have 51% voting rights in the shareholdings' meeting of YLLT. Thus, the Group can exercise control over the financial and operating policies of YLLT.

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

Limited liability companies established in the PRC.

+ Sino-foreign joint ventures established in the PRC.

◊ A subsidiary newly incorporated during the year.

~ A subsidiary disposed of 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.

During the year, the Company disposed of its entire equity interest of 65% in YLSC. Further details of the disposal are included in note 36 to the financial statements.

18. INTERESTS/INVESTMENTS IN ASSOCIATES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted shares, at cost	**—**	—	**122,760**	147,760
Share of net assets	**98,726**	141,888	**—**	—
Negative goodwill on acquisition	**—**	(4,243)	**—**	—
	98,726	137,645	**122,760**	147,760
Provision for impairment	**—**	—	**(42,000)**	(42,000)
	98,726	137,645	**80,760**	105,760

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

The Group's other receivable and trade balances with associates are disclosed in notes 22, 24, 28 and 29 to the financial statements.

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

Particulars of the principal associates are as follows:

Name	Place of registration and operations	Percentage of ownership interest attributable to the Group Direct	Percentage of ownership interest attributable to the Group Indirect	Principal activities
Yituo (Luoyang) Diesel Co., Ltd. ("YLDC") - note (i) 一拖(洛陽)柴油機有限公司	PRC	—	22.53	Manufacture and sale of diesel engines
Luoyang First Motors Company Limited ("LFMC") 洛陽福賽特汽車股份有限公司	PRC	29.5	—	Design, manufacture and sale of vehicles and related accessories
Yituo (Luoyang) Engine Machinery Company Limited ("YEMC")* - note (ii) 一拖(洛陽)動力機械有限公司	PRC	42	—	Manufacture and sale of engines and generators
Yituo (Luoyang) Casting & Forging Company Limited ("YLCF")* - note (iii) 一拖(洛陽)鑄鍛有限公司	PRC	25	—	Manufacture and sale of casting and forging products

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

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 YLCF.

* The names of the above PRC associates in English are direct translations 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.

During the year, the Company disposed of its entire equity interest of 40% in First Tractor Ningbo C.S.I. Tractor & Automobile Corp., Ltd. ("NCSIT"). Goodwill remaining in the consolidated reserves arising from the acquisition of the associate, NCSIT, amounted to RMB4,901,000 at both 1 January 2004 and 31 December 2004. The amount of goodwill is stated at cost at 31 December 2004.

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

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

Group

	Negative goodwill
	RMB'000
31 December 2005	
At 1 January 2005:	
Cost as previously reported	6,061
Effect of adopting HKFRS 3 (note 2.2(c))	(6,061)
Cost as restated	—
Accumulated recognition as income as previously reported	1,818
Effect of adopting HKFRS 3 (note 2.2(c))	(1,818)
Accumulated recognition as income as restated	—
Net carrying amount	—
Cost and carrying amount at 1 January 2005 and 31 December 2005	—

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

Group

	Negative goodwill *RMB'000*
31 December 2004	
At 1 January 2004:	
Cost	6,061
Accumulated recognition as income	(1,212)
Net carrying amount	4,849
Cost at 1 January 2004, net of accumulated recognition as income	4,849
Recognised as income during the year	(606)
At 31 December 2004	4,243
At 1 31 December 2004:	
Cost	6,061
Accumulated recognition as income	(1,818)
Net carrying amount	4,243

The Group has discontinued the recognition of its share of losses of Shanghai Qiangnong (Group) Company Limited (an associate) because the share of losses of such an associate exceeded the Group's interest in the associate. The Group's unrecognised share of losses of this associate for the current year and cumulatively were RMB2,441,000 (2004:RMB16,582,000) and RMB35,147,000 (2004: RMB32,706,000) respectively.

All the above associates have been accounted for using the equity method in the Group's financial statements.

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

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	2005	2004
	RMB'000	*RMB'000*
Assets	**1,239,813**	1,129,617
Liabilities	**952,846**	749,975
Revenues	**1,247,737**	1,401,231
Loss	**(43,394)**	(23,758)

19. AVAILABLE-FOR-SALE EQUITY INVESTMENTS/LONG TERM INVESTMENTS

	Group		**Company**	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted equity investments, at fair value	**52,600**	69,917	**52,600**	67,903
Unlisted equity investments, at cost	**21,507**	—	**19,943**	—
Provision for impairment	**(2,123)**	(2,123)	**(2,123)**	(2,123)
	71,984	67,794	**70,420**	65,780

No gain on the Group's available-for-sale equity investments was recognised during the year (2004: Nil).

The fair values of unlisted available-for-sale equity investments have been estimated 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.

Certain unlisted equity investments of the Group and the Company are not stated at fair value but at cost less any accumulated impairment losses, because they do not have a quoted market price in an active market, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

20. LOANS RECEIVABLE

Group - 2005	Notes	Gross amount RMB'000	Impairment allowances RMB'000	Net RMB'000
Loan to the Holding	(i)	252,800	2,528	250,272
Loan to associates	(ii)	86,900	3,368	83,532
Loans to related companies	(iii)	41,710	1,582	40,128
Loans to customers	(iv)	16,765	1,348	15,417
		398,175	8,826	389,349
Portion classified as current assets		(200,534)	(6,849)	(193,685)
Long term portion		197,641	1,977	195,664

Group - 2004	Notes	Gross amount RMB'000	Provisions RMB'000	Net RMB'000
Loan to the Holding	(i)	196,000	5,880	190,120
Loans to associates	(ii)	22,900	927	21,973
Loans to related companies	(iii)	15,750	2,443	13,307
Loans to customers	(iv)	78,890	1,614	77,276
		313,540	10,864	302,676
Portion classified as current assets		(101,337)	(4,411)	(96,926)
Long term portion		212,203	6,453	205,750

Notes:

(i) The loan to the Holding is granted by FTGF and is unsecured, interest-bearing at 5.76% (2004: 5.49% to 5.76%) per annum and repayable within one to two (2004: one to three) years.

(ii) The loans to associates are granted by FTGF. These loans are unsecured and bear interest at rates ranging from 5.74% to 6.14% (2004: 5.84% to 6.14%) per annum. Except for the loan granted to LFMC (an associate) of RMB67 million which is repayable in 2007, all loans to associates are repayable within one year.

20. LOANS RECEIVABLE *(continued)*

(iii) The loans to related companies represent the loans granted by FTGF to the companies which the Holding has significant influence therein. These loans are unsecured, interest-bearing at rates ranging from 5.58% to 6.34% (2004: 5.49% to 6.26%) per annum and repayable within one year.

(iv) The loans to customers represent the loans granted to the specific customers as permitted by the People's Bank of China ("PBOC").

The movements of impairment allowances/provisions for loans receivable during the year are as follows:

	Group	
	2005	2004
	Impairment allowances	Provisions for loans receivable
	RMB'000	*RMB'000*
Balance at 1 January	**10,864**	10,216
New provisions charged to the income statement, net	**(2,038)**	648
Balance at 31 December	**8,826**	10,864

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	
	2005	2004
	RMB'000	*RMB'000*
Repayable:		
Within three months	**68,024**	24,200
Within one year but over three months	**132,510**	77,137
Within five years but over one year	**194,066**	206,643
Over five years	**3,575**	5,560
	398,175	313,540

The carrying amounts of the Group's loans receivable approximate to their fair values.

21. INVENTORIES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials	**113,392**	148,682	**47,567**	61,962
Work in progress	**238,842**	257,934	**138,534**	168,012
Finished goods	**365,336**	423,850	**158,295**	109,482
Spare parts and consumables	**37,657**	34,644	**34,340**	29,920
	755,227	865,110	**378,736**	369,376

22. TRADE AND BILLS RECEIVABLES

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

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

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
				(Restated)
Within 90 days	**220,839**	314,146	**221,292**	203,173
91 days to 180 days	**107,639**	89,393	**55,189**	28,574
181 days to 365 days	**85,303**	59,185	**34,290**	4,818
1 to 2 years	**30,123**	27,151	**4,268**	1,971
Over 2 years	**4,737**	815	**—**	—
	448,641	490,690	**315,039**	238,536

22. TRADE AND BILLS RECEIVABLES *(continued)*

At 31 December 2005, certain of the Group's and the Company's bills receivable of RMB7,400,000 (2004: Nil) were pledged for the issuance of bills payable.

Included in the trade and bills receivables of the Group and the Company are trade receivables from the Holding of approximately RMB8,136,000 (2004: Nil) and RMB8,100,000 (2004: Nil), respectively.

Included in the trade and bills receivables of the Group and the Company are trade receivables from associates aggregating approximately RMB12,135,000 (2004: RMB1,901,000) and RMB10,687,000 (2004: RMB1,901,000), respectively.

Included in the trade and bills receivables of the Company are trade receivables from the subsidiaries of approximately RMB129,864,000 (2004: RMB44,927,000).

23. BILLS DISCOUNTED RECEIVABLE

The bills discounted receivable arose from the Group's financial operation. Included in the bills discounted receivable (net of impairment) of the Group are approximately RMB56,103,000 (2004: RMB53,064,000) related to the Holding; approximately RMB97,238,000 (2004: RMB26,265,000) related to an associate; and approximately RMB9,267,000 (2004: RMB3,425,000) 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	
	2005	2004
	RMB'000	*RMB'000*
Maturing within:		
Within three months	**105,697**	41,714
Within six months but over three months	**63,431**	91,604
	169,128	133,318
Less: Impairment allowance for bills discounted receivable	**(1,691)**	(1,333)
	167,437	131,985

23. BILLS DISCOUNTED RECEIVABLE *(continued)*

The movements of impairment allowance/provision for discounted bills receivable during the year are as follows:

	Group	
	2005	2004
	Impairment allowance	Provision for bills discounted receivable
	RMB'000	*RMB'000*
Balance at 1 January	**1,333**	1,570
New provisions charged to the income statement, net	**358**	(237)
Balance at 31 December	**1,691**	1,333

24. OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments, deposits and other debtors	**217,632**	268,959	**117,073**	158,041
Due from the Holding (note 25)	**23,760**	—	**23,652**	—
Prepaid income tax	**2,986**	5,102	**—**	—
	244,378	274,061	**140,725**	158,041

24. OTHER RECEIVABLES *(continued)*

Notes:

(i) Included in other debtors is an amount of RMB20 million (2004: RMB42.72 million) (net of provision) due from the branch of a securities company which represents the overdue balance of a government bond investment to be repaid to the Company. Pursuant to a court judgement in September 2004, the securities company is required to repay the overdue balance of RMB42.72 million to the Company and a repayment schedule has been agreed between the Company and the securities company such that the securities company should repay the overdue balance to the Company by unequal instalments over 2 years commencing from 15 January 2005. The Company received the first settlement of RMB13,500,000 before the date of the approval of the financial statements for the year ended 31 December 2004, and no provision has been made for the remaining balance of RMB29.22 million in the financial statements for the year ended 31 December 2004. Thereafter, the securities company commenced its restructuring and since July 2005, it is under court order protection against the execution of any claim on it until January 2007. As a result the agreed repayment schedule for the remaining balance of RMB29.22 million was deferred. The directors are of the view that the Company should have valid legal claim on the outstanding balance and is able to recover such balance subsequent to the expiry of the court order. However, the directors consider it prudent to make an impairment allowance of RMB9,220,000 to cover for the overdue instalment at 31 December 2005.

(ii) Included in other debtors of the Group and the Company are other receivables due from associates totalling approximately RMB5,076,000 (2004: RMB12,905,000). Such balances are unsecured, interest-free and have no fixed term of repayments.

(iii) Included in other debtors of the Group are other receivables due from minority shareholders of subsidiaries of the Group of approximately RMB 22,703,000 (2004: RMB19,293,000). Such balances are unsecured, interest-free and have no fixed terms of repayment.

25. DUE FROM/TO THE HOLDING

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

26. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT TERM INVESTMENTS

	Group	
	2005	2004
	RMB'000	*RMB'000*
Listed equity securities, at market value:		
Hong Kong	**3,576**	7,203
Elsewhere	**—**	12,458
	3,576	19,661

The above equity investments at 31 December 2005 were classified as held for trading.

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
		2005	2004	**2005**	2004
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances — note (i)		**416,883**	340,043	**205,154**	60,049
Mandatory reserve deposits in the PBOC - note (ii)		**38,362**	29,530	**—**	—
Time deposits		**208,308**	97,070	**77,391**	6,072
		663,553	466,643	**282,545**	66,121
Less: Pledged time deposits:					
Pledged for bills payable	28	**(105,570)**	(54,382)	**(58,391)**	—
Pledged for other banking facilities		**(15,554)**	(14,824)	**—**	(3,000)
Cash and cash equivalents		**542,429**	397,437	**224,154**	63,121

Notes:

(i) The balance included FTGF's placements with the PBOC and other banks of approximately RMB52,674,000 (2004: RMB71,285,000) and RMB136,689,000 (2004: RMB101,077,000), respectively.

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

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

	Group	
	2005	2004
	RMB'000	*RMB'000*
Maturing within:		
Within three months	**139,308**	90,788
Within one year but over three months	**69,000**	6,282
	208,308	97,070

28. TRADE AND BILLS PAYABLES

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

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 90 days	**531,402**	432,112	**346,495**	224,947
91 days to 180 days	**225,677**	189,767	**148,743**	27,812
181 days to 365 days	**40,617**	77,545	**14,734**	19,191
1 to 2 years	**29,446**	19,636	**7,787**	7,829
Over 2 years	**16,846**	12,831	**8,692**	7,498
	843,988	731,891	**526,451**	287,277

The Group's bills payables amounting to approximately RMB211,375,000 (2004: RMB197,400,000) are secured by the pledge of certain of the Group's deposits amounting to approximately RMB105,570,000 (2004: RMB54,382,000).

Included in the trade and bills payables of the Group are trade payables to the Holding of approximately RMB2,865,000 (2004: RMB2,639,000).

Included in the trade and bills payables of the Group and the Company are trade payables to associates totalling RMB8,113,000 (2004: RMB13,817,000) and RMB1,840,000 (2004: RMB10,913,000), respectively.

29. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2005	2004	2005	2004
	Note	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Accruals and other liabilities		**365,400**	288,636	288,583	177,550
Due to the Holding	25	**22,823**	65,168	—	43,692
		388,223	353,804	288,583	221,242

Included in other liabilities of the Group are amounts due to the minority shareholders of subsidiaries of the Group of approximately RMB6,541,000 (2004: RMB2,679,000). Such balances are unsecured, interest-free and have no fixed terms of repayment.

Included in other liabilities of the Group and the Company is receipt in advance from an associate of approximately RMB3,772,000 (2004: Nil).

Included in other liabilities of the Company are receipts in advance from subsidiaries totalling RMB156,657,000 (2004: RMB48,416,000).

30. PROVISIONS

Group	**Early retirement benefits**	**Product warranties**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year	—	7,914	7,914
Additional provision	23,896	37,544	61,440
Amounts utilised during the year	(2,450)	(32,677)	(35,127)
At 31 December 2005	21,446	12,781	34,227
Portion classified as current liabilities	(4,004)	(12,781)	(16,785)
Non-current portion	17,442	—	17,442

30. PROVISIONS *(continued)*

Company	Early retirement benefits	Product warranties	Total
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year	—	2,202	2,202
Additional provision	20,067	2,442	22,509
Amounts utilised during the year	(2,199)	(2,442)	(4,641)
At 31 December 2005	17,868	2,202	20,070
Portion classified as current liabilities	(3,327)	(2,202)	(5,529)
Non-current portion	14,541	—	14,541

A provision for early retirement benefits was recorded during the year in connection with the early retirement plans for the Group's employees. Further details of the early retirement plans are included in note 38 to the financial statements.

The Group provides warranties for certain of its products sold, under which faulty products are repaired or replaced. The estimation basis is reviewed on an ongoing basis and is revised where appropriate.

31. CUSTOMER DEPOSITS

	Group	
	2005	2004
	RMB'000	*RMB'000*
Deposits from the Holding	**69,525**	32,407
Deposits from associates	**75,859**	77,323
Deposits from related companies	**28,184**	18,557
Deposits from customers	**25,460**	91,420
	199,028	219,707

31. CUSTOMER DEPOSITS *(continued)*

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	
	2005	2004
	RMB'000	*RMB'000*
Repayable:		
On demand	**195,128**	176,907
Within three months	**—**	—
Within one year but over three months	**3,900**	42,800
	199,028	219,707

32. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	Group		Company	
			2005	2004	**2005**	2004
			RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Current						
Bank loans:						
Secured	6.42 – 6.98	2006	**5,500**	24,000	**—**	—
Unsecured	4.80 – 6.70	2006	**166,750**	72,660	**93,590**	20,000
			172,250	96,660	**93,590**	20,000
Non-current						
Bank loans:						
Unsecured	4.80	2007	**1,000**	—	**—**	—
			173,250	96,660	**93,590**	20,000
Analysed into:						
Bank loans repayable:						
Within one year or on demand			**172,250**	96,660	**93,590**	20,000
In the second year			**1,000**	—	**—**	—
			173,250	96,660	**93,590**	20,000

32. INTEREST-BEARING BANK BORROWINGS *(continued)*

All of the above bank loans of the Group and the Company as at 31 December 2005 and 31 December 2004 are under fixed rate and in RMB.

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 RMB18,806,000 (2004: RMB27,417,000) (note 13);

(ii) corporate guarantees provided by the Company and certain subsidiaries of the Group, including FTGF;

(iii) guarantees provided by the Holding and YLDC; and

(iv) guarantees provided by the holding company of the minority shareholder of ZHHRM.

The carrying amounts of the Group's and the Company's bank loans approximate to their fair values, which are calculated by discounting the expected future cash flows at prevailing interest rates.

33. DEFERRED TAX

Deferred tax liabilities

No deferred tax liabilities of the Group and the Company were recognised for the years ended 31 December 2005 and 2004. 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.

33. DEFERRED TAX *(continued)*

Deferred tax assets

Group and Company	2005 Losses available for offset against future taxable profit *RMB'000*	Early retirement benefits *RMB'000*	Total *RMB'000*
At 1 January 2005	—	—	—
Deferred tax credited to the income statement during the year (note 10)	22,339	5,896	28,235
Deferred tax assets at 31 December 2005	22,339	5,896	28,235

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

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

Group	**2005** ***RMB'000***	2004 *RMB'000*
Tax losses	**133,177**	226,885
Assets provision	**40,691**	21,191
Other deductible temporary differences	**45,764**	76,421
	219,632	324,497

Deferred tax assets have not been recognised in respect of these 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.

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

34. SHARE CAPITAL

	Company	
	2005	2004
	RMB'000	*RMB'000*
Registered, issued and fully paid:		
State-owned legal person shares of RMB1.00 each	**450,000**	450,000
H shares of RMB1.00 each	**335,000**	335,000
	785,000	785,000

There was no movement in the share capital during the years ended 31 December 2005 and 2004.

35. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

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.

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.

35. RESERVES *(continued)*

(a) Group *(continued)*

During the year, the subsidiaries' aggregate appropriations to the SSR, the PWF and the reserve fund, as dealt with in the Group's financial statements, were RMB2,222,000 (2004: RMB3,112,000), RMB1,073,000 (2004: RMB29,000) and RMB127,000 (2004: RMB639,000), respectively.

The associates' appropriations to each of the SSR and the PWF during the year, as dealt with in the Group's financial statements were RMB1,047,000 and RMB524,000, respectively. For the year ended 31 December 2004, the associates' appropriations to each of the SSR, the PWF and the enterprise expansion fund during the year, as dealt with in the Group's financial statements were RMB786,000, RMB393,000, and RMB820,000, respectively.

Pursuant to the relevant PRC regulations, FTGF, being a non-bank financial institution subsidiary of the Group, is required to transfer a certain amount of its net profit, as determined based on the degree of overall unidentified loss exposure (normally not lower than 1% of the ending balance of risk assets by the end of 2009), to the general and statutory reserve through its profit appropriation.

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against the consolidated retained profits, as explained in note 16 to the financial statements.

(b) Company

	Share premium account	Statutory surplus reserve	Statutory public welfare fund	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	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 and at 1 January 2005	1,378,840	48,388	48,388	(258,715)	1,216,901
Net profit for the year	—	—	—	91,181	91,181
At 31 December 2005	1,378,840	48,388	48,388	(167,534)	1,308,082

35. RESERVES *(continued)*

(b) Company *(continued)*

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

At the balance sheet date, the Company did not utilise any of the SSR or PWF.

As at 31 December 2005, the Company had no retained profits (2004: Nil) available for distribution by way of cash or in kind.

As at 31 December 2005, in accordance with the Company Law of the PRC, an amount of approximately RMB1.38 billion (2004: RMB1.38 billion) standing to the credit of the Company's share premium account was available for distribution by way of future capitalisation issues.

36. DISPOSAL OF A SUBSIDIARY

	Notes	**2005** **RMB'000**	2004 RMB'000
Net assets disposed of:			
Property, plant and equipment		**7,087**	—
Construction in progress		**1,030**	—
Cash and bank balances		**2,097**	—
Trade and bills receivables		**4,400**	—
Prepayments, deposits and other debtors		**1,303**	—
Inventories		**14,111**	—
Interest-bearing bank borrowings		**(2,600)**	—
Trade and bills payables		**(18,871)**	—
Accruals and other liabilities		**(1,000)**	—
Minority interests		**(2,645)**	—
		4,912	—
Gain on disposal of a subsidiary	5, 6	**735**	—
		5,647	—
Satisfied by:			
Cash		**5,647**	—

36. DISPOSAL OF A SUBSIDIARY *(continued)*

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

	2005	2004
	RMB'000	*RMB'000*
Cash consideration	**5,647**	—
Cash and bank balances disposed of	**(2,097)**	—
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	**3,550**	—

The results of the subsidiary disposed of during the year have no significant impact on the Group's consolidated revenue or loss after tax for the year.

37. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

The non-cash capital contribution made by a minority shareholder of a subsidiary of the Group during the year ended 31 December 2005 was in the form of non-current assets valued at RMB2,000,000.

The non-cash capital contributions made by the minority shareholders of the subsidiaries of the Group during the year ended 31 December 2004 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.

38. RETIREMENT BENEFITS

(a) The Group participates in various defined contribution retirement benefits schemes operated by the local municipal governments and is required to contribute 20% to 24% (2004: 20% to 25%) of the payroll costs to the schemes, out of which the pensions of the Group's retired employees are paid.

(b) During the year, the Group implemented early retirement plans for certain employees in addition to the benefits under the government-regulated defined contribution schemes as disclosed in (a) above. The benefits of the early retirement plans are estimated based on factors including the remaining number of years of service from the date of early retirement to the normal retirement date and with reference to certain historical salaries of such early retirees. The costs of early retirement benefits are recognised in the period when employees opted for early retirement.

39. CONTINGENT LIABILITIES

(a) As at 31 December 2005, FTGF, a subsidiary, had given guarantees to the extent of RMB100 million (2004: Nil) and RMB20 million (2004: Nil) to certain financial institutions for securing the loans granted to the Holding and YLDC, respectively. As at 31 December 2005, the aforesaid loans of the Holding and YLDC were drawn down to RMB100 million and RMB20 million, respectively.

(b) As at 31 December 2005, the Holding and FTGF, a subsidiary, had jointly given guarantee to the extent of RMB52 million (2004: RMB52 million) to a financial institution for securing the loans granted to Yituo (Luoyang) Fuel Jet Co. Ltd. ("YLFJ"), a subsidiary of the Holding. The aforesaid loans were drawn down to RMB52 million (2004: RMB52 million) as at 31 December 2005.

(c) As at 31 December 2005, ZHHRM, a subsidiary of the Group, had provided a guarantee to the extent of RMB20 million to a bank for securing the loan granted to a customer of the Group.

(d) As at 31 December 2005, the Company had given corporate guarantees of approximately RMB319.2 million (2004: RMB248.7 million) and RMB122.9 million (2004: RMB201.4 million) to FTGF and certain banks, respectively, for securing credit facilities granted by FTGF and such banks to certain subsidiaries. The facilities were utilised to the extent of approximately RMB442.1 million (2004: RMB450.1 million).

The above contingent liabilities were not provided for in the Group's and the Company's financial statements. Save as aforesaid, neither the Group, nor the Company had any significant contingent liabilities.

40. PLEDGE OF ASSETS

Details of the Group's bills payable and bank loans, which are secured by assets of the Group, are included in notes 28 and 32 to the financial statements, respectively.

41. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Company leases out certain of its buildings and machinery 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 prevailing market conditions.

At 31 December 2005, 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	
	2005	2004
	RMB'000	*RMB'000*
Within one year	**5,390**	1,633
In the second to fifth years, inclusive	**13,707**	4,817
	19,097	6,450

(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 one to fifty years, and those for plant and machinery are for terms of one year with renewal options.

At 31 December 2005, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		**Company**	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**6,453**	8,013	**6,000**	6,000
In the second to fifth years inclusive	**23,760**	27,985	**22,000**	23,000
After five years	**195,508**	200,858	**181,795**	186,795
	225,721	236,856	**209,795**	215,795

42. COMMITMENTS

In addition to the operating lease commitments detailed in note 41(b) above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted, but not provided for:				
Purchase of plant and machinery	**92,129**	102,386	**91,071**	95,822
Investment in joint venture	**50,880**	—	**50,880**	—
	143,009	102,386	**141,951**	95,822
Authorised, but not contracted for:				
Purchase of plant and machinery	**170,186**	174,871	**170,186**	173,041
Additional capital contribution into a subsidiary	**—**	—	**159,075**	159,075
Investments in joint ventures	**9,360**	7,550	**9,360**	7,300
	179,546	182,421	**338,621**	339,416
	322,555	284,807	**480,572**	435,238

43. RELATED PARTY TRANSACTIONS

(a) 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:

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	**2005** **RMB'000**	2004 RMB'000
Sales of raw materials, finished goods and components	(i)	**362,079**	314,533
Purchases of raw materials and components	(i)	**464,774**	502,539
Purchases of utilities	(ii)	**107,722**	127,059
Fees paid for welfare and support services	(iii)	**34,994**	20,542
Purchases of transportation services	(iii)	**19,537**	10,343
Research and development expenses paid	(iv)	**8,300**	6,149
Fees paid for the use of land	(v)	**5,000**	5,000
Fees paid for the use of trademark	(vi)	**8,300**	6,743
Rentals paid in respect of:			
Buildings	(vii)	**1,628**	1,263
Plant and machinery	(vii)	**4,371**	2,339
Rental income received in respect of:			
Buildings	(viii)	**1,380**	—
Plant and machinery	(viii)	**1,400**	4,274
Sales of plant and machinery	(ix)	**4,800**	13,062
Purchases of plant and machinery	(x)	**6,226**	2,911
Interest income, inclusive of discounted bill charges	(xi)	**27,257**	22,446
Interest paid for customer deposits	(xii)	**585**	707
Service charge for guarantee	(xiii)	**260**	—

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).

43. RELATED PARTY TRANSACTIONS *(continued)*

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

	Notes	2005 RMB'000	2004 RMB'000
Sales of raw materials and components	(i)	**173,010**	182,179
Purchases of raw materials and components	(i)	**190,812**	254,044
Rental income received in respect of:			
Buildings	(viii)	**1,380**	—
Plant and machinery	(viii)	**1,400**	4,274
Sales of plant and machinery	(ix)	**—**	11,397
Interest income, inclusive of discounted bill charges	(xi)	**4,973**	3,932
Interest paid for customer deposits	(xii)	**66**	109

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

	Notes	2005 RMB'000	2004 RMB'000
Sales of raw materials and components	(i)	**8,772**	5,321
Purchases of raw material and components	(ii)	**1,651**	—
Interest paid for customer deposits	(xii)	**794**	1,925

43. RELATED PARTY TRANSACTIONS *(continued)*

(a) During the year, ZHHRM and ZHAM carried out various transactions with Jiangsu Huatong Machinery Co., Ltd. ("Jiangsu Huatong") (a minority shareholder of ZHHRM and ZHAM) and the holding company of Jiangsu Huatong. Particulars of these transactions are summarised as follows:

		2005	2004
	Notes	***RMB'000***	*RMB'000*
Sales of finished goods and components	(xiv)	**9,704**	800
Purchases of raw materials and components	(xiv)	**1,145**	1,651
Fees paid for the use of trademark	(xv)	**400**	400
Rentals paid in respect of:			
Plant and machinery	(xiv)	**—**	200
Land	(xiv)	**920**	920
Buildings	(xiv)	**125**	500
Fees paid for support services	(xiv)	**100**	100
Management fees paid	(xiv)	**200**	350

The significant transactions carried out between YLSC and its minority shareholder up to date of the Group's disposal of YLSC in 2005 are summarised as follows:

		2005	2004
	Notes	***RMB'000***	*RMB'000*
Sales of standard parts and components	(xiv)	**2,773**	5,260

43. RELATED PARTY TRANSACTIONS *(continued)*

(a) *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., the mandatory price 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., the mandatory price 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 support services and transportation services is determined by reference to the state price (i.e., the mandatory price 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. Included in the welfare and supporting services fee during the year was an one-off staff children education expense of RMB36 million imposed by the local municipal government against the Holding, RMB18 million of which was recharged to the Company under the basis that such one-off expense is equally borne by the Company and the Holding.

(iv) Pursuant to relevant agreements, the pricing in respect of routine research and development services is calculated at a rate of 0.2% (2004: 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 (2004: 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% (2004: 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 mutually agreed with the related parties.

(ix) The sales of plant and machinery in 2005 were conducted under mutually agreed terms. The pricing of the sales of plant and machinery in 2004 was determined with reference to the net book value of the relevant assets.

43. RELATED PARTY TRANSACTIONS *(continued)*

(a) *Notes:*

(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.

(xii) The interest paid for customer deposits relates to the customer deposits placed in FTGF by the Holding and its subsidiaries and associates. Pursuant to the relevant agreements, the transactions are conducted with reference to the terms and rates stipulated by the PBOC.

(xiii) The service charge for guarantee relates to the service charge paid by a subsidiary of the Holding for the guarantee provided by FTGF. Pursuant to the relevant agreement, the pricing of the service charge is approximately 0.5% to 1% of the guarantee amount with reference to the relevant service fee charged by other licensed financial institutions in the PRC. Details of the guarantee are set out in note 43(b)(ii) to the financial statements.

(xiv) These transactions were conducted according to the prices and conditions, mutually agreed between the Group and its minority shareholder.

(xv) Pursuant to the relevant agreement, the annual fee paid for the use of trademark was RMB400,000 for the years from 2000 to 2005.

(b) Other transactions with related parties

(i) Designated deposits and designated loans

As at 31 December 2005, the Holding placed a designated deposit of RMB3.8 million (2004: RMB1 million) in FTGF for lending to YLCF.

As at 31 December 2005, Yituo International Commerce Company Limited, a subsidiary of the Holding, placed a designated deposit of RMB2 million (2004: Nil) in FTGF for lending to a third 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.

43. RELATED PARTY TRANSACTIONS *(continued)*

(ii) Guarantees provided by the Group to related parties

As at 31 December 2005, FTGF provided guarantees to the extent of RMB100 million (2004: Nil) and RMB20 million (2004: Nil) to certain financial institutions for securing loans granted to the Holding and YLDC, respectively.

As at 31 December 2005, the Holding and FTGF jointly provided a guarantee to the extent of RMB52 million (2004: RMB52 million) to a financial institution for securing loans granted to YLFJ.

(iii) Guarantees provided by related parties to the Group

During the year, the Holding provided a guarantee to the extent of RMB100 million (2004: Nil) to a bank for securing the banking facilities granted to the Company. As at 31 December 2005, the aforesaid banking facilities were utilised to the extent of RMB30 million.

During the year, YLDC provided guarantee a to the extent of RMB20 million (2004: RMB20 million) to a bank for securing a loan granted to the Company. As at 31 December 2005, the aforesaid loan was utilised to the extent of RMB20 million (2004: RMB20 million).

As at 31 December 2004, Jiangsu Huatong provided guarantees up to RMB26 million to banks for securing loans granted to ZHHRM.

(iv) During the year, ZHHRM, Jiangsu Huatong and its holding company entered into a debt assignment arrangement, whereby Jiangsu Huatong took up the obligation payable to ZHHRM of approximately RMB20 million from its holding company.

(v) During the year, the Company disposed of its entire equity interest in YLSC to the Holding at a consideration of approximately RMB5.65 million. Further details of the disposal are included in note 36 to the financial statements.

43. RELATED PARTY TRANSACTIONS *(continued)*

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

(vii) 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 percentages 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.

(c) Outstanding balances with related parties

(i) Details of the Group's amount due from/to the Holding, its loans and deposits balances with the Holding as at the balance sheet date are disclosed in notes 25, 20, and 31 to the financial statements, respectively.

(ii) Details of the Group's loans to and deposits received from its associates as at the balance sheet date are included in note 20 and 31 to the financial statements, respectively..

(iii) Details of the Group's trade balances with its related parties as at the balance sheet date are disclosed in notes 22 and 28 to the financial statements.

(iv) Details of the Group's amounts due from/to the minority shareholders as at the balance sheet date are disclosed in notes 24 and 29 to the financial statements.

(d) Compensation of key management personnel of the Group

	2005	2004
	RMB'000	*RMB'000*
Short term employee benefits	**957**	903
Post-employment benefits	**230**	204
Total compensation paid to key management personnel	**1,187**	1,107

Further details of directors' emoluments are included in note 8 to the financial statements.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly comprise bank loans, pledged deposits and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, loans receivables, bills discounted receivables, trade and bills payables and customer deposits, which arise directly from its operations, including the financial operation carried out by FTGF, a subsidiary of the Group.

The main risks arising from the Group's financial instruments are credit risk, foreign currency risk, cash flow interest rate risk and liquidity risk. The board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

Credit risk is the risk associated with a customer or counterparty being unable to meet a commitment when it falls due. It mainly arose from the trade receivables of the Group and the lending activities of FTGF.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the board of directors believes that adequate provision for uncollectible receivables have been made in the financial statements. In this respect, the board of directors considered that the credit risk is significantly reduced.

The Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk on the trade receivables.

For the Group's lending activities, FTGF has established a set of strict credit granting criteria and approving systems to control and manage credit risk. The loan approval committee is responsible to formulate credit policies and determine the cap of facilities, and each credit transaction was subject to a collective consideration and approval under conservative and prudent policies. The auditing department of FTGF is responsible for supervision over the implementation of the credit approving system and post-credit inspection system.

For the significant concentration of credit risk relates to the Group's loans receivable, please refer to note 20 to the financial statements.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk *(continued)*

The carrying amount of the Group's financial assets which comprise pledged deposits, cash and cash equivalents, available-for-sale financial assets, and other receivables included in the balance sheet, represents the Group's maximum exposure to credit risk in relation to its financial assets, without taking into account of the fair value of any collateral.

Foreign currency risk

The business of the Group is principally located in the PRC. While most of the transactions are conducted in RMB, the Group does not have significant exposure on foreign currency risk. As at 31 December 2005, the Group has short term deposits denominated in United States dollars and Hong Kong Dollars of approximately RMB21,647,000 (2004: RMB17,536,000) and RMB47,456,000 (2004: RMB52,442,000), respectively. All the bank loans of the Group are denominated in RMB. The Group does not use derivative financial instruments to hedge its foreign currency risk.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates primarily relates to the Group's loans receivable, customer deposits and debt obligations.

FTGF monitored the interest rate risk on a regular basis and made appropriate arrangements to minimise the exposure. The Group does not use derivative financial instruments to hedge its interest rate risk.

The table below summaries the effective interest rates at 31 December for monetary financial instruments:

	2005 **Rate** **% per annum**	2004 Rate % per annum
Assets		
Cash and cash equivalents	**0.72% – 2.48%**	0.72% – 1.98%
Loans receivable	**4.95% – 6.91%**	4.77% – 6.59%
Liabilities		
Customer deposits	**0.72% – 2.70%**	0.72% – 2.70%
Interest-bearing bank borrowings	**4.80% – 6.98%**	4.43% – 6.32%

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings, bills payable and other available sources of financing.

To monitor the liquidity risk arising from the Group's financial operations, FTGF has established policies and procedures to monitor and control its liquidity position. The Asset and Liability Management Committee of FTGF is responsible for properly managing the liquidity structure of its assets, liabilities and commitments so as to achieve balanced cash flows and to meet all funding obligations.

45. POST BALANCE SHEET EVENT

In December 2005, the Company entered into a joint venture agreement whereby the Company injects capital of RMB50,880,000 in the form of cash and other assets into Yituo (Luoyang) Transportation Machinery Co., Ltd. ("YLTM"). After the aforesaid capital injection, the registered capital of YLTM will be increased to RMB55,880,000, of which RMB50,880,000 (constituting 91.05% thereof) will be attributed to the Company and RMB5,000,000 (constituting 8.95% thereof) will be attributable to the Holding and certain third parties. YLTM engages in the manufacture and sale of transportation machinery. Subsequent to the balance sheet date, the Company injected capital of RMB19.2 million in the form of cash into YLTM.

46. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs and the change in segment identification during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 April 2006.