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 diesel engines, fuel injection pump and fuel jet

In the opinion of the directors, the parent and the ultimate parent of the Company 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 2006. 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.

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

The acquisititon of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HK(IFRIC) - Int 4	Determining whether an Arrangement contains a Lease
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 21 Amendment	Net Investment in a Foreign Operation

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

The principal changes in accounting policies are as follows:

(a) HKAS 39 Financial Instruments: Recognition and Measurement

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. During the current and prior years, the Company provided guarantees to banks in connection with bank loans and other banking facilities granted to its subsidiaries. Upon the adoption of this amendment, the Company is required to recognise these financial guarantee contracts as financial liabilities. The change in accounting policy has been recognised since 1 January 2005 when HKAS 39 was initially adopted by the Group/Company and the comparative amounts for the year ended 31 December 2005 have been restated. The effects of the above change are summarised below.

	2006	2005
	RMB'000	*RMB'000*
Company balance sheet at 31 December		
Cumulative increase in investments in subsidiaries	**32,000**	18,388
Cumulative increase in financial guarantee liabilities	**(32,000)**	(18,388)
	—	—

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

(a) HKAS 39 Financial Instruments: Recognition and Measurement *(continued)*

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(b) HK(IFRIC) - Int 4 Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

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

(c) HKAS 21 The Effects of Changes in Foreign Exchange Rates

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

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.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC) - Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) - Int 8	Scope of HKFRS 2
HK(IFRIC) - Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) - Int 10	Interim Financial Reporting and Impairment
HK(IFRIC) - Int 11	HKFRS 2 - Group and Treasury Share Transactions
HK(IFRIC) - Int 12	Service Concession Arrangements

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.

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

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires disclosures that include general information about how an entity identifies its operating segment, the type of products and services from which each operating segment derives its revenue and the information to be disclosed in the identified segment.

IFRIC - Int 7, IFRIC - Int 8, IFRIC - Int 9, IFRIC - Int 10, IFRIC - Int 11, IFRIC - Int 12, shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007, and 1 January 2008 respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7, and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, has unilateral control, directly or indirectly, over the joint venture;

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

(c) an associate, if the Group 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 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.

2.4 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

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

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

Goodwill previously eliminated against consolidated retained profits

Prior to the adoption of HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated retained profits 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.

Excess over the cost of business combinations

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' profits or losses in the period in which the investments are acquired.

Impairment of non-financial assets other than goodwill

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets other than goodwill *(continued)*

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.

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.

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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the 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

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and 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 considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

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, that is, the date that the Group commits to purchase or sell 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. 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.

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 subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. 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.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

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 three 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 other valuation models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

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 the income statement.

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.

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 has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(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 the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

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 them 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

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.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to the ultimate holding company and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provision, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial liabilities

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 recognized in the income statement.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

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 a 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

2.4 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 the income statement. 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 not 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.

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.

Impairment of goodwill

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 the collectability and aging analysis of trade receivables and on the judgement of 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 balance sheet date.

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

Estimation uncertainty *(continued)*

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.

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 estimates 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.

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

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and deductible temporary difference to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses and deductible temporary difference at 31 December 2006 was RMB34,273,000 (2005: RMB28,235,000). The amount of unrecognized deferred tax assets in respect of unused tax losses and other temporary difference at 31 December 2006 was RMB59,437,000 (2005: RMB48,051,000). Further details are contained in note 33 to the financial statements.

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 and services are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the five 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;

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

4. SEGMENT INFORMATION *(continued)*

(d) the "Diesel engines and fuel jets" segment engages in the manufacture and sale of diesel engines and fuel injection pumps; and

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

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

Business segments

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 2006 and 2005.

Group	Agricultural machinery		Construction machinery		Financial operations		Diesel engines and fuel jets		Others		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue														
Sales to external customers	**4,699,191**	3,751,521	**1,198,603**	1,013,898	**—**	—	**203,614**	—	**43**	409	**—**	—	**6,101,451**	4,765,828
Intersegment revenue	**321,956**	285,549	**28,358**	46,692	**19,206**	15,373	**158,062**	—	**—**	—	**(527,582)**	(347,614)	**—**	—
Other income and gains	**—**	—	**—**	—	**31,864**	33,480	**—**	—	**—**	—	**—**	—	**31,864**	33,480
Total	**5,021,147**	4,037,070	**1,226,961**	1,060,590	**51,070**	48,853	**361,676**	—	**43**	409	**(527,582)**	(347,614)	**6,133,315**	4,799,308
Segment results	**148,020**	23,254	**(72,642)**	(122,768)	**35,112**	33,477	**(1,179)**	—	**(4,609)**	(3,015)	**—**	—	**104,702**	(69,052)
Interest, dividend and investment income													**8,691**	8,640
Gain on disposal of a subsidiary													**—**	735
Gain on disposal of an associate													**—**	11,000
Provision for other receivable													**(5,000)**	(9,220)
Unallocated expenses													**(6,160)**	(1,444)
Finance costs													**(16,593)**	(11,186)
Share of profits and losses of associates	**—**	7,589	**—**	—	**—**	—	**—**	—	**1,827**	(14,544)	**—**	—	**1,827**	(6,955)
Profit/(loss) before tax													**87,467**	(77,482)
Tax													**(15,251)**	17,183
Profit/(loss) for the year													**72,216**	(60,299)

4. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

Group	Agricultural machinery		Construction machinery		Financial operations		Diesel engines and fuel jets		Others		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment assets	**2,412,533**	2,363,035	**1,016,994**	929,758	**1,104,229**	1,052,074	**870,929**	—	**74,891**	77,667	**(890,767)**	(826,411)	**4,588,809**	3,596,123
Interests in associates	**—**	—	**—**	—	**—**	—	**—**	—	**20,449**	98,726	**—**	—	**20,449**	98,726
Unallocated assets													**381,964**	126,781
Total assets													**4,991,222**	3,821,630
Segment liabilities	**1,094,414**	1,009,779	**801,146**	644,593	**559,573**	512,670	**367,894**	—	**104,886**	124,835	**(890,767)**	(826,411)	**2,037,146**	1,465,466
Unallocated liabilities													**586,027**	178,709
Total liabilities													**2,623,173**	1,644,175
Other segment information:														
Capital expenditure	**138,863**	147,658	**24,962**	35,426	**88**	125	**15,839**	—	**1,236**	339	**—**	—	**180,988**	183,548
Depreciation	**63,033**	65,053	**19,749**	18,641	**523**	567	**13,685**	—	**374**	677	**—**	—	**97,364**	84,938
Impairment and reversal of impairment of items of property, plant and equipment and construction in progress, net	**(11,392)**	7,637	**15,000**	9,353	**—**	—	**—**	—	**3,985**	2,661	**—**	—	**7,593**	19,651
Provision for impairment of trade receivables, net	**(7,801)**	2,448	**14,887**	20,650	**—**	—	**(1,433)**	—	**242**	—	**—**	—	**5,895**	23,098
Provision/(reversal of provision) against obsolete inventories, net	**(772)**	(215)	**(10,810)**	6,452	**—**	—	**(824)**	—	**503**	—	**—**	—	**(11,903)**	6,237
Net charge for impairment losses and allowances for loans receivable	**—**	—	**—**	—	**(353)**	(2,038)	**—**	—	**—**	—	**—**	—	**(353)**	(2,038)

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:

	2006	2005
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**6,101,451**	4,765,828
Other income		
Bank interest income	**5,310**	7,460
Interest income from financial operations	**29,592**	26,982
Profit from sundry sales	**35,622**	29,046
Rental income	**6,075**	5,614
Dividend income from listed investments	**2,000**	—
Dividend income from unlisted investments	**665**	156
Others	**22,783**	21,339
	102,047	90,597
Gains		
Gain on disposal of items of property, plant and equipment, net	**3,953**	167
Gain on disposal of a subsidiary	—	735
Gain on disposal of an associate	—	11,000
Fair value gain on listed equity investments at fair value through profit or loss, net	**716**	—
Gain on disposal of listed equity investments at fair value through profit or loss, net	—	1,024
	4,669	12,926
	106,716	103,523

6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2006 RMB'000	2005 RMB'000
Cost of inventories sold		**5,509,093**	4,408,063
Depreciation	13	**97,364**	84,938
Amortisation of prepaid land premiums	15	**553**	188
Impairment and reversal of impairment of construction in progress, net*	14	**(5,335)**	6,990
Impairment and reversal of impairment of items of property, plant and equipment, net*	13	**12,928**	12,661
Employee benefits expense (excluding directors' and supervisors' remuneration - *note 8*):			
Wages and salaries		**355,158**	307,911
Pension scheme contributions**		**79,692**	65,333
Provision/(reversal of provision) for early retirement benefits	30	**(6,397)**	23,896
		428,453	397,140
Minimum lease payments under operating leases:			
Land and buildings		**14,653**	11,906
Plant and machinery		**1,272**	3,803
		15,925	15,709
Research and development costs		**65,551**	27,640
Auditors' remuneration		**4,900**	4,264
Provision for impairment of trade receivables, net		**5,895**	23,098
Provision for other receivable	24(i)	**5,000**	9,220
Net charge for impairment losses and allowances for loans receivable	20	**(353)**	(2,038)
Net charge for impairment losses and allowances for bills discounted receivable	23	**527**	358

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

	Notes	2006 RMB'000	2005 RMB'000
Interest expense on financial operations		**5,882**	6,868
Provision /(reversal of provision) against obsolete inventories, net		**(11,903)**	6,237
Gain on disposal of items of property, plant and equipment, net		**(3,953)**	(167)
Fair value (gain)/loss on listed equity investments at fair value through profit or loss, net		**(716)**	1,444
Gain on disposal of a subsidiary		**—**	(735)
Gain on disposal of an associate		**—**	(11,000)
Foreign exchange differences, net		**1,719**	600
(Gain)/loss on disposal of listed equity investments at fair value through profit or loss, net		**252**	(1,024)
Dividend income from unlisted investments		**(665)**	(156)
Dividend income from listed investments		**(2,000)**	—
Bank interest income		**(5,310)**	(7,460)
Interest income from financial operations		**(29,592)**	(26,982)
Gross rental income		**(6,075)**	(5,614)

* The impairment and 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 2006, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2005: Nil).

7. FINANCE COSTS

	Group 2006 RMB'000	Group 2005 RMB'000
Interest on bank and other loans wholly repayable within five years	**16,593**	11,186
Less: Interest capitalised	**—**	—
	16,593	11,186

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 2006 RMB'000	Group 2005 RMB'000
Fees	**—**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**703**	600
Performance related bonuses	**350**	300
Pension scheme contributions	**235**	220
	1,288	1,120
	1,288	1,120

(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 (2005: Nil).

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

(b) Executive directors and supervisors

2006	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	—	54	27	18	99
Mr. Liu Wenying	—	54	27	18	99
Mr. Zhao Yanshui	—	54	27	18	99
Mr. Yan Linjiao	—	54	27	18	99
Mr. Li Tengjiao	—	54	27	18	99
Mr. Shao Haichen	—	54	27	18	99
Mr. Zhang Jing	—	54	27	18	99
Mr. Li Youji	—	54	27	18	99
Mr. Liu Shuangcheng	—	54	27	18	99
Mr. Zhao Fei	—	54	27	18	99
	—	540	270	180	990
Supervisors:					
Mr. Liu A Nan	—	32	16	11	59
Mr. Zhao Zhonghai	—	14	7	5	26
Mr. Xu Weilin	—	33	16	11	60
Ms. Wang Aiying	—	14	7	5	26
Mr. Shao Jianxin	—	33	16	11	60
Mr. Zhao Shengyao	—	18	9	6	33
Mr. Kong Lingfu	—	18	9	6	33
Mr. Zheng Luyu	—	1	—	—	1
	—	163	80	55	298
	—	703	350	235	1,288

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

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

2005	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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 Jianxin	—	28	14	10	52
	—	140	70	50	260
	—	600	300	220	1,120

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 five (2005: two) non-director employees, details of whose remuneration are as follows:

	Group	
	2006	2005
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**857**	200
Performance related bonuses	**—**	105
Pension scheme contributions	**194**	15
	1,051	320

None of the highest paid employees (2005: three) for the year are directors of the Company, details of whose remuneration are set out in note 8 above.

The remuneration of the five (2005: two) non-director, highest paid employees fell within the band of nil to RMB1,000,000.

10. TAX

	Group	
	2006	2005
	RMB'000	*RMB'000*
Group:		
Current - PRC corporate income tax charge for the year	**15,887**	10,811
Underprovision/(overprovision) in prior years	**(127)**	241
Deferred tax *(note 33)*	**(509)**	(28,235)
Total tax charge/(credit) for the year	**15,251**	(17,183)

10. TAX *(continued)*

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 2006 and 2005.

The PRC corporate income tax for the Company and the majority of its subsidiaries is calculated at rates ranging from 10% to 33% (2005: 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 Mainland China 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 (2005: Nil).

The share of tax attributable to associates amounting to RMB14,283,000 (2005: RMB5,173,000), 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% (2005: 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			
	2006		2005	
	RMB'000	**%**	*RMB'000*	%
Profit /(loss) before tax	**87,467**		(77,482)	
Tax at the PRC statutory tax rate	**28,864**	33	(25,569)	33
Lower tax rate for specific provinces or local authority	**(14,069)**	(16)	(2,139)	3
Adjustments in respect of current tax of previous periods	**(127)**	—	241	—
Profits and losses attributable to associates	**(603)**	(1)	2,295	(3)
Income not subject to tax	**(8,344)**	(10)	(395)	1
Expenses not deductible for tax	**29,998**	35	34,445	(45)
Tax losses utilised from previous periods	**(35,731)**	(41)	(57,664)	74
Tax losses not recognised	**15,263**	17	31,603	(41)
Tax charge/(credit) at the Group's effective rate	**15,251**	17	(17,183)	22

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of RMB99,740,000 (2005: RMB91,181,000) which has been dealt with in the financial statements of the Company (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 profit for the year attributable to ordinary equity holders of the parent of RMB72,849,000 (2005: loss of RMB50,436,000), and the weighted average number of 785,000,000 (2005: 785,000,000) ordinary shares in issue during the year.

Diluted earnings/(loss) per share amounts for the years ended 31 December 2006 and 31 December 2005 have not been disclosed as no diluting events existed during both years.

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 2006				
At 31 December 2005 and at 1 January 2006:				
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
At 1 January 2006, net of accumulated depreciation and impairment	360,091	390,495	34,557	785,143
Additions	6,066	12,035	1,474	19,575
Disposals	(6,241)	(75,384)	(4,317)	(85,942)
Acquisition of subsidiaries *(note 36)*	46,980	200,197	4,310	251,487
Impairment	(8,219)	(8,794)	(1,810)	(18,823)
Depreciation provided during the year	(26,944)	(66,042)	(4,378)	(97,364)
Reversal of impairment	—	5,895	—	5,895
Transfer from construction in progress *(note 14)*	63,553	75,536	6,637	145,726
At 31 December 2006, net of accumulated depreciation and impairment	435,286	533,938	36,473	1,005,697
At 31 December 2006:				
Cost	990,175	1,520,824	62,064	2,573,063
Accumulated depreciation and impairment	(554,889)	(986,886)	(25,591)	(1,567,366)
Net carrying amount	435,286	533,938	36,473	1,005,697

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 2005				
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	(1,374)	(5,471)	(242)	(7,087)
Contributions by minority shareholders 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)*

Company

	Buildings	Plant, machinery and equipment	Transportation vehicles and equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2006				
At 31 December 2005 and at 1 January 2006:				
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
At 1 January 2006, net of accumulated depreciation and impairment	214,653	298,556	9,598	522,807
Additions	—	5,632	—	5,632
Disposals	(2,297)	(73,570)	(1,691)	(77,558)
Depreciation provided during the year	(16,931)	(42,241)	(1,651)	(60,823)
Reversal of impairment	—	5,895	—	5,895
Transfer from construction in progress *(note 14)*	23,343	42,238	4,738	70,319
At 31 December 2006, net of accumulated depreciation and impairment	218,768	236,510	10,994	466,272
At 31 December 2006:				
Cost	618,219	846,608	19,340	1,484,167
Accumulated depreciation and impairment	(399,451)	(610,098)	(8,346)	(1,017,895)
Net carrying amount	218,768	236,510	10,994	466,272

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 2005				
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

Certain of the Group's buildings and machinery are leased to third parties under operating leases, further summary details of which are included in note 41(a) to the financial statements.

At 31 December 2006, certain of the Group's buildings and machinery with an aggregate net carrying value of approximately RMB91,009,000 (2005: RMB18,806,000) were pledged to secure certain short term bank loans granted to the Group (note 32).

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

Impairment and reversal of impairment of items of property, plant and equipment recognised in the income statement during the year is summarised as follows:

	2006	2005
	RMB'000	*RMB'000*
Construction machinery segment - note	**15,000**	10,000
Other segments	**(2,072)**	2,661
	12,928	12,661

Note: Due to the sustained losses of the construction machinery segment during the year and prior year, 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") and Yituo (Luoyang) Construction Machinery Co., ("YCMC"), subsidiaries of the Company. 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.

14. CONSTRUCTION IN PROGRESS

	Group	Company
	RMB'000	*RMB'000*
31 December 2006		
At 31 December 2005 and 1 January 2006:		
Cost	165,622	152,233
Impairment	(14,002)	(13,608)
Net carrying amount	151,620	138,625
At 1 January 2006, net of impairment	151,620	138,625
Additions	154,429	129,158
Transfer to items of property, plant and equipment *(note 13)*	(145,726)	(70,319)
Acquisition of subsidiaries *(note 36)*	60,885	—
Impairment recognised in the income statement during the year	(162)	—
Reversal of impairment recognised in the income statement during the year	5,497	5,497
At 31 December 2006, net of impairment	226,543	202,961
At 31 December 2006:		
Cost	234,280	210,143
Impairment	(7,737)	(7,182)
Net carrying amount	226,543	202,961

14. CONSTRUCTION IN PROGRESS *(continued)*

	Group	Company
	RMB'000	*RMB'000*
31 December 2005		
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	(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

An impairment loss of RMB162,000 (2005: 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 dates, 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 to their intended use, and the relevant impairment provision was reversed accordingly.

15. PREPAID LAND PREMIUMS

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Carrying amount at 1 January	**13,761**	7,747	**2,092**	—
Additions	**6,984**	6,202	**—**	2,160
Amortisation recognised during the year	**(553)**	(188)	**(69)**	(68)
Carrying amount at 31 December	**20,192**	13,761	**2,023**	2,092

The leasehold lands are held under a medium term leases and is situated in the, Mainland China.

At 31 December 2006, certain of the Group's prepaid land premiums with an aggregate net carrying value of approximately RMB8,304,000 (2005: Nil) were pledged to secure bank loans granted to the Group (Note 32 (iii)).

16. GOODWILL

Group

	Goodwill
	RMB'000
Cost at 1 January 2005 and 31 December 2005	—
Acquisition of subsidiaries *(note 36)*	52,990
Impairment during the year	—
Cost and carrying amount at 31 December 2006	52,990
At 31 December 2006	
Cost	52,990
Accumulated impairment	—
Net carrying amount	52,990

16. GOODWILL *(continued)*

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the cash-generating unit (the "CGU") of diesel engines and fuel jets, which is a reportable segment, for impairment testing. The recoverable amount of this CGU has been determined based on value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projection is 6.5%, which is based on the current costs of borrowings. The growth rate used for the five-year period is based on management's prudence estimation which is in the range of 4%-5%. The key assumptions are as follows:

a) The expected growth demand from the existing market;

b) The general growth rate of approximately 10% for the agricultural and machinery industry; and

c) The production capacity of the CGU.

The carrying amount of goodwill allocated to the CGU of diesel engines and fuel jets is RMB52,990,000.

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2006	2005
	RMB'000	*RMB'000*
		(Restated)
Unlisted investments, at cost	**940,565**	698,847
Financial guarantee granted to subsidiary - note 2.2(a) and note 39	**32,000**	18,388
Impairment for unlisted investments	**(57,302)**	(53,695)
	915,263	663,540

The loans to subsidiaries of RMB68,000,000 (2005: RMB52,000,000) with an impairment of RMB2,000,000 (2005: Nil) included in the Company's current assets, which are granted in the form of designated deposits through a financial institution subsidiary of the Company, are unsecured, bear interest at rates ranging from 5.31% to 6.12% (2005: 5.31% to 6.70%) per annum and are repayable within one year.

The amounts due from and due to subsidiaries of RMB118,777,000 (2005: RMB129,530,000) and nil (2005: RMB5,101,000) included in the Company's current assets and current liabilities, respectively, are unsecured, interest-free and are repayable on demand or within one year.

Deposits in a subsidiary are deposits placed by the Company in a financial institution subsidiary. Except for a one-year time deposit of RMB10 million placed therein which bears interest at a rate of 2.52% per annum, all 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.

17. INVESTMENTS IN SUBSIDIARIES *(continued)*

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Brilliance China Machinery Holdings Limited 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	Mainland China	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	Mainland China	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	Mainland China	RMB500,000	99	—	Trading of tractors
Yituo Shenyang Tractor Company Limited* # 一拖瀋陽拖拉機有限公司	Mainland China	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	Mainland China	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		Principal activities
			Direct	Indirect	
Zhenjiang Huachen Huatong Road Machinery Company Limited ("ZHHRM")+ 鎮江華晨華通路面機械有限公司	Mainland China	US$7,154,300	—	53.2	Manufacture and sale of road construction machinery
Yituo (Luoyang) Harvester Co., Ltd.* # 一拖(洛陽)收穫機械有限公司	Mainland China	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	Mainland China	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	Mainland China	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	Mainland China	RMB500,000,000	87.8	9.1	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	Mainland China	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	Percentage of equity attributable to the Company Indirect	Principal activities
Yituo (Luoyang) Shentong Construction Machinery Company Limited ("YLST")* # - note (ii) 一拖(洛陽)神通工程機械有限公司	Mainland China	RMB13,000,000	50	—	Manufacture and sale of construction machinery
Yituo (Luoyang) Lutong Construction Machinery Company of Limited ("YLLT")* # - note (iii) 一拖(洛陽)路通工程機械有限公司	Mainland China	RMB58,000,000	—	43.7	Manufacture and sale of construction machinery
Yituo (Luoyang) Construction Machinery Trading Co., Limited ("YLCMT") * # 一拖(洛陽)工程機械銷售有限公司	Mainland China	RMB8,000,000	40	46.3	Trading of road rollers and construction machinery
Luoyang Changxing Agriculture Machinery Company Limited * # 洛陽長興農業機械有限公司	Mainland China	RMB3,000,000	70	30	Trading of Tractors
Yituo (Luoyang) Agricultural Machinery and Tools Co., Ltd. ("YLAT") * # 一拖(洛陽)機具有限公司	Mainland China	RMB10,000,000	73	—	Manufacture and sale of agricultural machinery and tools

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) Diesel Co., Ltd. ("YLDC") * + q - note (iv) 一拖(洛陽)柴油機有限公司	Mainland China	RMB51,718,205	58.8	22.5	Manufacture and sale of diesel engines
Yituo (Louyang) Fuel Jet Co., Ltd. ("YLFJ")* # q - note (iv) 一拖(洛陽)燃油噴射有限公司	Mainland China	RMB52,000,000	77	14.6	Manufacture and sale of fuel injection pumps and fuel jets
Yituo (Luoyang) Engines machinery Company Limited ("YEMC") 一拖(洛陽)動力機械有限公司	Mainland China	RMB38,000,000	42	40.7	Manufacture and sale of diesel engines
Yituo (Luoyang) Transportation Machinery Co., Ltd. ("YLTM") * # q 一拖(洛陽)搬運機械有限公司	Mainland China	RMB24,158,600	79.3	—	Manufacture and sale of fork lifts
Yituo (Louyang) Fork Lift Trading Co., Ltd. ("YLFT")* # q 一拖(洛陽)叉車銷售有限公司	Mainland China	RMB800,000	—	55.5	Sale of fork lifts
Luoyang Qirui Steel Casting Company Ltd. ("LQSC") * # - note (v) 洛陽市齊瑞鑄鋼有限公司	Mainland China	RMB4,010,000	—	30.4	Manufacture and sale of steel and forging products

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 have conferred 8% voting rights in the shareholders' meeting of YLBC to the Company. Therefore, the Company can exercise control over the financial and operating policies of YLBC.

(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 on 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 on 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.

(iv) During the year, the Company and the Holding entered into an asset swap agreement pursuant to which the Company acquired a 58.8% equity interest in YLDC and a 70% equity interest in YLFJ. Thereafter, YLDC and YLFJ became subsidiaries of the Group. Further details of this acquisition are included in notes 36 and 43(e).

(v) In December 2005, certain shareholders of LQSC agreed to confer the voting rights to YBMC, a subsidiary of the Gorup, in accordance with minutes of shareholders' meeting, such that YBMC secured voting rights exceeding 50% of the voting rights eligible to be cast in the shareholders' meeting of LQSC. The directors of the Company considered that it is insignificant to Group for the year ended 31 December 2005 and YBMC effectively gained control since 1 January 2006. In this regard, LQSC was consolidated in preparation of the financial statements starting from 1 January 2006.

* 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

q Subsidiaries newly acquired 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.

18. INTERESTS/INVESTMENTS IN ASSOCIATES

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted shares, at cost	**—**	—	**106,800**	122,760
Share of net assets	**20,449**	98,726	**—**	—
	20,449	98,726	**106,800**	122,760
Provision for impairment	**—**	—	**(86,000)**	(42,000)
	20,449	98,726	**20,800**	80,760

The Group's loans 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 at 31 December 2006 are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Luoyang First Motors Company Limited ("LFMC") 洛陽福賽特汽車股份有限公司	Paid up capital of RMB200,000,000	Mainland China	29.5	—	Design, manufacture and sale of vehicles and related accessories
Yituo (Luoyang) Casting & Forging Company Limited ("YLCF")* - note (i) 一拖(洛陽)鑄鍛有限公司	Paid up capital of RMB20,000,000	Mainland China	25	—	Manufacture and sale of casting and forging products

Notes:

(i) The Holding holds a 50% equity interest in YLCF.

* The name of the above PRC associate in English is direct translation of its registered name 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.

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

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

	2006	2005
	RMB'000	*RMB'000*
Assets	**291,411**	1,239,813
Liabilities	**232,351**	952,846
Revenues	**467,802**	1,247,737
Loss	**(70,527)**	(43,394)

19. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted equity investments, at fair value	**227,600**	52,600	**197,600**	52,600
Unlisted equity investments, at cost	**25,922**	21,507	**25,663**	19,943
Provision for impairment	**(2,123)**	(2,123)	**(2,123)**	(2,123)
	251,399	71,984	**221,140**	70,420

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 an 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 — 2006	Notes	Gross amount RMB'000	Impartment allowances RMB'000	Net RMB'000
Loans to the Holding	(i)	252,800	2,528	250,272
Loans to associates	(ii)	26,651	533	26,118
Loans to related companies	(iii)	32,760	2,964	29,796
Loans to customers	(iv)	17,781	2,448	15,333
		329,992	8,473	321,519
Portion classified as current assets		(181,811)	(6,991)	(174,820)
Long term portion		148,181	1,482	146,699

Group — 2005	Notes	Gross amount RMB'000	Impartment allowances RMB'000	Net RMB'000
Loans to the Holding	(i)	252,800	2,528	250,272
Loans 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

Notes:

(i) The loans to the Holding are granted by FTGF and are unsecured, bear interest at a rate of 6.3% (2005: 5.76%) per annum and are repayable within one to three years (2005: one to two years).

(ii) The loans to associates are granted by FTGF. These loans are unsecured and bear interest at rates ranging from 6.14% to 7.34% per annum (2005: 5.74% to 6.14% per annum). All loans to associates are repayable within one year.

(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, bear interest at rates ranging from 5.85% to 7.98% per annum (2005: 5.58% to 6.34% per annum) and are 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 (the "PBOC").

20. LOANS RECEIVABLE *(continued)*

The movements of impairment during the year are as follows:

	Group	
	2006	2005
	RMB'000	*RMB'000*
Balance at 1 January	**8,826**	10,864
New provisions charged to the income statement, net	**(353)**	(2,038)
Balance at 31 December	**8,473**	8,826

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	
	2006	2005
	RMB'000	*RMB'000*
Repayable:		
Within three months	**28,360**	68,024
Within one year but over three months	**153,451**	132,510
Within five years but over one year	**146,057**	194,066
Over five years	**2,124**	3,575
	329,992	398,175

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

21. INVENTORIES

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials	**185,257**	113,392	**52,227**	47,567
Work in progress	**248,075**	238,842	**126,312**	138,534
Finished goods	**397,626**	365,336	**115,013**	158,295
Spare parts and consumables	**21,408**	37,657	**16,480**	34,340
	852,366	755,227	**310,032**	378,736

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	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 90 days	**459,454**	220,839	**266,242**	221,292
91 days to 180 days	**192,322**	107,639	**82,482**	55,189
181 days to 365 days	**65,324**	85,303	**10,141**	34,290
1 to 2 years	**22,581**	30,123	**4,580**	4,268
Over 2 years	**5,093**	4,737	**2,691**	—
	744,774	448,641	**366,136**	315,039

At 31 December 2006, certain of the Group's and the Company's bills receivable of RMB 75,282,000 (2005: RMB7,400,000) 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 RMB18,826,000 (2005: RMB8,136,000) and RMB8,729,000 (2005: RMB8,100,000) respectively.

Included in the trade and bills receivables of the Group and the Company are trade receivables from associates aggregating approximately RMB14,043,000 (2005: RMB12,135,000) and RMB12,053,000 (2005: RMB10,687,000) respectively.

Included in the trade and bills receivables of the Company are trade receivables from the subsidiaries of approximately RMB145,595,000 (2005: RMB129,864,000).

23. BILLS DISCOUNTED RECEIVABLE

The bills discounted receivable arose from the Group's financial operations. Included in the bills discounted receivable (net of impairment) of the Group are approximately RMB192,030,000 (2005: RMB56,103,000) related to the Holding; approximately RMB97,238,000 related to an associate as at 31 December 2005; and approximately RMB9,267,000 related to related companies as at 31 December 2005.

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	
	2006	2005
	RMB'000	*RMB'000*
Maturing :		
Within three months	**120,619**	105,697
Within six months but over three months	**101,160**	63,431
	221,779	169,128
Less: Impairment allowance for bills discounted receivable	**(2,218)**	(1,691)
	219,561	167,437

The movements of impairment allowance during the year are as follows:

	Group	
	2006	2005
	RMB'000	*RMB'000*
Balance at 1 January	**1,691**	1,333
New provisions charged to the income statement, net	**527**	358
Balance at 31 December	**2,218**	1,691

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments, deposits and other debtors	**237,529**	217,632	**122,108**	117,073
Due from the Holding *(note 25)*	**110,304**	23,760	**2,900**	23,652
Prepaid income tax	**1,795**	2,986	**—**	—
	349,628	244,378	**125,008**	140,725

Notes:

(i) Included in other debtors is an amount of RMB15 million (2005: RMB20 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 two years commencing from 15 January 2006. The Company received the first settlement of RMB13,500,000 in 2005 and an impairment allowance of RMB9,220,000 was provided for at 31 December 2005. Thereafter, the securities company commenced its restructuring and since July 2005, it has been under court order protection against the execution of any claim on it until January 2008. 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 a 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 a further impairment allowance of RMB5,000,000 to cover for the overdue instalment during the year ended 31 December 2006 and the accumulated impairment allowance increased to RMB14,220,000 at 31 December 2006.

(ii) Included in other debtors of the Group and the Company are other receivables due from associates totalling approximately RMB2,621,000 (2005: RMB5,076,000). Such balances are unsecured, interest-free and have no fixed terms of repayment.

(iii) Included in other debtors of the Group are other receivables due from minority shareholders of subsidiaries of the Group of approximately RMB24,559,000 (2005: RMB22,703,000). 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

	Group	
	2006	2005
	RMB'000	*RMB'000*
Listed equity securities, at market value:		
Hong Kong	**3,487**	3,576

The above equity investments at 31 December 2006 were classified as held for trading.

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
		2006	2005	**2006**	2005
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances — *note (i)*		**681,382**	416,883	**265,082**	205,154
Mandatory reserve deposits with the PBOC — *note (ii)*		**44,874**	38,362	**—**	—
Time deposits		**162,088**	208,308	**35,452**	77,391
		888,344	663,553	**300,534**	282,545
Less: Pledged time deposits:					
Pledged for bills payable	28	**(105,270)**	(105,570)	**(10,165)**	(58,391)
Pledged for other banking facilities		**(17,170)**	(15,554)	**—**	—
Cash and cash equivalents		**765,904**	542,429	**290,369**	224,154

Notes:

(i) The balance included FTGF's deposits placed with the PBOC and other banks of approximately RMB118,933,000 (2005: RMB52,764,000) and RMB129,514,000 (2005: RMB136,689,000), respectively.

(ii) The balance represents mandatory reserve deposits placed with 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	
	2006	2005
	RMB'000	*RMB'000*
Maturing:		
Within three months	**149,088**	139,308
Within one year but over three months	**13,000**	69,000
	162,088	208,308

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	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 90 days	**853,712**	531,402	**384,108**	346,495
91 days to 180 days	**258,328**	225,677	**105,810**	148,743
181 days to 365 days	**84,578**	40,617	**41,187**	14,734
1 to 2 years	**39,863**	29,446	**11,606**	7,787
Over 2 years	**42,880**	16,846	**11,897**	8,692
	1,279,361	843,988	**554,608**	526,451

The Group's bills payables amounting to approximately RMB241,381,000 (2005: RMB211,375,000) are secured by the pledge of certain of the Group's deposits amounting to approximately RMB105,270,000 (2005: RMB105,570,000).

Included in the trade and bills payables of the Group are trade payables to the Holding of approximately RMB7,266,000 (2005: RMB2,865,000).

Included in the prior year trade and bills payables of the Group and the Company were trade payables to associates totalling RMB8,113,000 and RMB1,840,000, respectively. There were no trade payables to associates included in the trade and bills payables of the Group and the Company for the current year.

29. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2006	2005	**2006**	2005
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Accruals and other liabilities		**386,860**	365,400	**221,550**	288,583
Due to the Holding	25	**108,448**	22,823	**2,900**	—
		495,308	388,223	**224,450**	288,583

Included in other liabilities of the Group are amounts due to the minority shareholders of subsidiaries of the Group of approximately RMB12,891,000 (2005: RMB6,541,000). Such balances are unsecured, interest-free and have no fixed terms of repayment.

Included in other liabilities of the Group and the Company is a receipt in advance from an associate of approximately RMB490,000 (2005: RMB3,772,000).

Included in other liabilities of the Company are receipts in advance from subsidiaries totalling RMB85,670,000 (2005: RMB156,657,000).

30. PROVISIONS

Group	Early retirement benefits *RMB'000*	Product warranties *RMB'000*	Total *RMB'000*
At 1 January 2006	21,446	12,781	34,227
Provision for the year	621	37,039	37,660
Acquisition of subsidiaries	1,136	61,123	62,259
Amounts utilised during the year	(4,228)	(85,998)	(90,226)
Reversal during the year	(7,018)	—	(7,018)
At 31 December 2006	11,957	24,945	36,902
Portion classified as current liabilities	(3,121)	(24,945)	(28,066)
Non-current portion	8,836	—	8,836

Company	Early retirement benefits *RMB'000*	Product warranties *RMB'000*	Total *RMB'000*
At beginning of year	17,868	2,202	20,070
Provision for the year	621	3,106	3,727
Amounts utilised during the year	(3,512)	(1,106)	(4,618)
Reversal during the year	(6,614)	—	(6,614)
At 31 December 2006	8,363	4,202	12,565
Portion classified as current liabilities	(2,091)	(4,202)	(6,293)
Non-current portion	6,272	—	6,272

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	
	2006	2005
	RMB'000	*RMB'000*
Deposits from the Holding	**85,483**	69,525
Deposits from associates	**1,659**	75,859
Deposits from related companies	**52,775**	28,184
Deposits from customers	**16,897**	25,460
	156,814	199,028

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

	Group	
	2006	2005
	RMB'000	*RMB'000*
Repayable:		
On demand	**142,230**	195,128
Within three months	**141**	—
Within one year but over three months	**14,443**	3,900
	156,814	199,028

32. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	Group 2006 RMB'000	Group 2005 RMB'000	Company 2006 RMB'000	Company 2005 RMB'000
Current						
Bank loans:						
Secured	5.14%-5.85%	2007	**54,578**	5,500	**—**	—
Unsecured	5.27%-7.96%	2007	**386,980**	166,750	**143,000**	93,590
			441,558	172,250	**143,000**	93,590
Non-current						
Bank loans:						
Secured	6.7%	2010	**74,000**	—	**74,000**	—
Unsecured	6%-6.81%	2008	**46,000**	1,000	**—**	—
			120,000	1,000	**74,000**	—
			561,558	173,250	**217,000**	93,590

	Group 2006 RMB'000	Group 2005 RMB'000	Company 2006 RMB'000	Company 2005 RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**441,558**	172,250	**143,000**	93,590
In the second year	**46,000**	1,000	**—**	—
In the third to fifth years, inclusive	**74,000**	—	**74,000**	—
	561,558	173,250	**217,000**	93,590

All of the above bank loans of the Group and the Company as at 31 December 2006 and 31 December 2005 are under fixed rates and in RMB.

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

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

(i) the Group's certain buildings and machinery with an aggregate net carrying value of approximately RMB91,009,000 (2005: RMB18,806,000) *(note 13)*;

(ii) the Holding's certain prepaid land premiums with an aggregate net carrying value of approximately RMB28,151,000 (2005: Nil) ;

(iii) a subsidiary's prepaid land premiums with an aggregate net carrying value of approximately RMB 8,304,000 (2005: Nil) ;

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

(v) guarantees provided by the Holding and YLDC.

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

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group and Company

	Revaluation of available-for-sale investments *RMB'000*
At 1 January 2006	—
Deferred tax debited to equity during the year	47,850
Gross deferred tax liabilities at 31 December 2006	47,850

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	2006 Losses available for offset against future taxable profit	Early retirement benefits	Other deductible temporary differences	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006	22,339	5,896	—	28,235
Deferred tax assets arising from acquisition of subsidiaries	—	375	5,154	5,529
Deferred tax credited/(debited) to the income statement during the year *(note 10)*	(14,708)	(3,136)	18,353	509
Deferred tax assets at 31 December 2006	7,631	3,135	23,507	34,273

Company	Losses available for offset against future taxable profit	Early retirement benefits	Other deductible temporary differences	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006	22,339	5,896	—	28,235
Deferred tax credited/(debited) to the income statement during the year	(19,589)	(3,136)	15,396	(7,329)
Deferred tax assets at 31 December 2006	2,750	2,760	15,396	20,906

33. DEFERRED TAX *(continued)*

Deferred tax assets *(continued)*

Group and Company	Losses available for offset against future taxable profit	Early retirement benefits	Provisions	Total
	RMB'000	*RMB'000*	*RMB'000*	*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

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	2006	2005
	RMB'000	*RMB'000*
Tax losses	**144,756**	133,177
Assets provision	**43,986**	40,691
Other deductible temporary differences	**17,830**	45,764
	206,572	219,632

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	
	2006	2005
	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 2006 and 2005.

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 on page 66 of the financial statements.

In accordance with the Company Law of the PRC prior to 1 January 2006 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, has been transferred to the reserve fund and enterprise expansion fund, which are restricted as to use.

35. RESERVES *(continued)*

(a) Group *(continued)*

Prior to 1 January 2006, when the PWF was utilised, an amount equal to the lower of the cost of the assets and the balance of the PWF was transferred from the PWF to the general surplus reserve (the "GSR"). The GSR was non-distributable other than in liquidation. On disposal of the relevant assets, the original transfers from the PWF were reversed.

According to the revised Company Law of the PRC effective 1 January 2006, the Company is no longer required to make appropriation from its profit after tax to the PWF. All unutilised PWF as of 1 January 2006 was converted to GSR.

During the year, the subsidiaries' aggregate appropriations to the SSR, the PWF, the reserve fund, and the enterprise expansion fund, as dealt with in the Group's financial statements, were RMB8,753,000 (2005: RMB2,222,000), Nil (2005: RMB1,073,000), RMB348,000 (2005: RMB127,000) and RMB203,000 (2005: Nil), respectively.

The associates' appropriations to each of the SSR and the PWF during the prior year, as dealt with in the Group's financial statements were RMB1,047,000 and RMB524,000, respectively. There were no associates' appropriations to the SSR and the PWF during the current year.

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 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 consolidated retained profits, as explained in note 16 to the financial statements.

35. RESERVES *(continued)*

(b) Company

	Share premium account RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Available-for-sale investment revaluation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2005	1,378,840	48,388	48,388	—	(258,715)	1,216,901
Profit for the year	—	—	—	—	91,181	91,181
At 31 December 2005 and at 1 January 2006	1,378,840	48,388	48,388	—	(167,534)	1,308,082
Profit for the year	—	—	—	—	99,740	99,740
Changes in fair value of available-for-sale investments	—	—	—	97,150	—	97,150
At 31 December 2006	1,378,840	48,388	48,388	97,150	(67,794)	1,504,972

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 2006, the Company had no retained profits (2005: Nil) available for distribution by way of cash or cash in kind.

As at 31 December 2006, in accordance with the Company Law of the PRC, an amount of approximately RMB1.38 billion (2005: 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. BUSINESS COMBINATION

On 11 May 2006, the Company and the Holding entered into an asset swap agreement, pursuant to which the Company agreed with the Holding to exchange the assets of four casting factories for the 58.8% equity interest in YLDC and 70% equity interest in YLFJ. The consideration for the 58.8% equity interest in YLDC and 70% equity interest in YLFJ exchanged to the Company is RMB154.75 million and RMB43.27 million, respectively; the consideration of the assets of the four casting factories exchanged out by the Company was RMB158.24 million. The net consideration of approximately RMB39.78 million payable by the Company to Holding pursuant to such asset swap was satisfied in the form of cash paid by the Company in August 2006, and the asset swap was completed in August 2006. Brilliance China Machinery Holding Limited, a 90.1%-owned subsidiary of the Company, held a 25% equity interest in YLDC. The Company's equity investment in YLFJ was 7%. Upon completion of the asset swap, the Group held an effective equity interest of 81.3% in YLDC. For YLFJ, the Company and YLDC held an equity interest of 7% and 18% therein respectively and upon the completion of the asset swap, the Group effectively held an effective interest of 91.6% in YLFJ. YLDC and YLFJ have become the subsidiaries of the Company since then.

36. BUSINESS COMBINATION *(continued)*

The fair value of the identifiable assets and liabilities of YLDC and its subsidiary ("YLDC Group") and YLFJ acquired as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

		YLDC Group		YLFJ	
		Fair value recognised on acquisition	Carrying amount	Fair value recognised on acquisition	Carrying Amount
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	13	181,516	171,457	62,609	52,279
Construction in progress	14	36,745	36,745	23,818	23,818
Available-for-sale investments		60,945	60,480	—	—
Inventories		106,353	97,432	18,415	18,415
Trade and bills receivables		336,104	336,104	12,466	12,466
Deferred tax assets		2,938	2,938	2,592	2,592
Cash and bank balances		88,546	88,546	2,650	2,650
Other receivables		100,715	100,715	28,563	28,563
Trade and bills payables		(287,216)	(287,216)	(14,029)	(14,029)
Other payables and accruals		(87,760)	(87,760)	(19,923)	(19,923)
Provisions		(61,124)	(61,124)	(1,135)	(1,135)
Interest-bearing bank borrowings		(214,350)	(214,350)	(52,000)	(52,000)
Tax payable		(18,739)	(18,739)	(4,232)	(4,232)
Pre-acquisition profit entitled by the seller		(32,867)	(32,867)	(2,068)	(2,068)
Minority interests		(39,615)	(36,465)	(2,989)	(2,473)
Fair value/carrying value of net assets at date of acquisition		172,191	155,896	54,737	44,923
Goodwill on acquisition	16	*50,485		2,505	
		222,676		57,242	
Satisfied by:					
Cash		31,088		8,692	
Assets of four casting factories		122,720		34,314	
Interests in associates		64,065		—	
Available-for-sale investments		—		12,892	
Direct costs		4,803		1,344	
		222,676		57,242	

* The goodwill of RMB50,485,000 comprises the fair value of expected synergies arising from the acquisition and a customer list, which is not separately recognised. Due to the contractual terms imposed on acquisition, the customer list is not separable and therefore does not meet the criteria for recognition as an intangible asset under HKAS 38 Intangible assets.

36. BUSINESS COMBINATION *(continued)*

The assets of the four casting factories, interests in associates and available-for-sale investments mentioned in the above analysis of the consideration represented their respective carrying values, which approximate to their fair value, upon completion of the asset swap.

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of above subsidiaries are as follows:

	RMB'000
Cash consideration	39,780
Direct costs incurred	6,147
Cash and bank balances acquired	(91,196)
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(45,269)

Since their acquisition, YLDC Group and YLFJ contributed RMB350.49 million and RMB48.71 million to the Group's turnover respectively and a profit of RMB3.74 million and a loss of RMB0.43 million to the consolidated profit respectively for the year ended 31 December 2006.

Had the combination of YLDC and YLFJ taken place at the beginning of the year, the turnover of the Group and the profit of the Group for the year would have been RMB7.07 billion and RMB153.76 million, respectively.

In December 2005, the Company entered into a capital injection agreement with Yituo (Luoyang) Transportation Machinery Co., Ltd. ("YLTM"), whereby the Company agreed to inject capital of RMB50,880,000 in the form of cash and other assets into YLTM. Before the aforesaid capital injection, the registered capital of YLTM was RMB5 million and the Holding held a 73.836% equity interest in YLTM, while the remaining 26.164% equity interest was held by certain individuals. 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 individuals. YLTM engages in the manufacture and sale of transportation machinery. YLTM holds a 70% equity interest in Yituo (Luoyang) Fork Lift Trading Company Limited ("YLFT"). In January 2006, the Company injected capital of RMB19.2 million in the form of cash into YLTM and hence owned a 79.3% equity interest in YLTM. Thereafter, YLTM and its subsidiary, YLFT (collectively the "YLTM Group") became subsidiaries of the Group. The remaining capital injection of RMB31.7 million, which will be in form of non-cash assets has not been completed at the date of financial statements.

36. BUSINESS COMBINATION *(continued)*

Details of the assets and liabilities of the YLTM Group immediately before the capital injection were as follows:

	Notes	Carrying amount RMB'000
Property, plant and equipment	13	375
Construction in progress	14	322
Cash and bank balances		1,725
Trade and bills receivables		1,052
Other receivables		1,986
Inventories		7,948
Trade and bills payables		(8,883)
Other payables and accruals		(608)
Interest-bearing bank borrowings		(500)
Minority interests		(184)
		3,233
Satisfied by minority interest		3,233

The above carrying amounts of the assets and liabilities of YLTM Group approximate to their fair values.

Since its acquisition, YLTM Group contributed RMB36,958,000 to the Group's turnover and reduced the Group's consolidated profit after tax by RMB2,977,000 for the year ended 31 December 2006.

Had the acquisition taken place alone at beginning of the year, the turnover of the Group and the profit of the Group for the year would have been RMB6.1 billion and RMB72.2 million respectively.

The Group owned a 32% equity interests in LQSC. LQSC is engaged in the manufacture and sale of steel and forging products for the use in production of diesel engines. Since the Group has no significant influence on LQSC and thus, such investment was recognised in the Group's prior year consolidated financial statements as an available-for-sale investment.

36. BUSINESS COMBINATION *(continued)*

In December 2005, certain shareholders of LQSC agreed to confer the voting rights to YBMC, a subsidiary of the Group, such that YBMC secured voting rights exceeding 50% of the voting rights eligible to be cast in the shareholders' meeting of LQSC and hence YBMC has gained control over LQSC. In this regard, LQSC was consolidated by the Group in preparation of the financial statements starting from 1 January 2006.

The assets and liabilities of LQSC as at the date of consolidation were as follows:

	Note	**Carrying amount** *RMB'000*
Property, plant and equipment	13	6,987
Inventories		17,006
Trade and bills receivables		6,745
Cash and bank balances		534
Other receivables		4,124
Trade and bills payables		(7,755)
Other payables and accruals		(23,225)
Tax payable		(137)
Minority interests		(2,973)
		1,306
Satisfied by available-for-sale investments		1,306

36. BUSINESS COMBINATION *(continued)*

The above carrying amounts of the assets and liabilities of LQSC approximate to their fair values.

Since the date of acquisition, LQSC contributed RMB47.6 million to the Group's turnover and RMB1.6 million to the Group's profit for the year ended 31 December 2006.

Had the acquisition taken place at beginning of the year, the turnover of the Group and the profit of the Group would have been RMB6.1 billion and RMB72.2 million respectively.

37. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

The non-cash consideration was made by the Company and China Yituo under the assets swap agreement on 11 May 2006, pursuant to which the Company agreed with China Yituo to exchange the assets of the four casting factories at an aggregate consideration of RMB158.24 million for the 58.80% equity interest in YLDC and 70% equity interest in YLFJ at a consideration of RMB154.75 million and RMB43.27 million respectively.

The net consideration payable by the Company to China Yituo pursuant to the assets swap agreement of approximately RMB39.78 million was settled in form of cash.

Such assets swap was completed in August 2006.

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 21% to 23% (2005: 20% to 24%) 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

The contingent liabilities not provided for in the Group's and the Company's financial statements are as follows:

(a) As at 31 December 2006, FTGF, a subsidiary, had given guarantees to the extent of RMB100 million (2005: RMB100 million) to certain financial institutions for securing the loans granted to the Holding. As at 31 December 2006, the aforesaid loans of the Holding was drawdown to RMB100 million (2005: RMB100 million).

(b) As at 31 December 2006, ZHHRM, a subsidiary of the Group, had provided a guarantee to the extent of RMB20 million (2005: RMB20 million) to a bank for securing the loan granted to a customer of the Group.

As at 31 December 2006, the Company had given corporate guarantees of approximately RMB252.6 million (2005: RMB319.2 million) and RMB216.4 million (2005: RMB122.9 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 RMB469 million (2005: RMB442.1 million). The fair values of such guarantees have been recognised in the Company's balance sheet. See note 2.2(a) to the 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 certain assets of the Group, are included in notes 28 and 32 to the financial statements, respectively.

41. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its buildings and machinery (note 13) 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 2006, 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	
	2006	2005
	RMB'000	*RMB'000*
Within one year	**3,751**	5,390
In the second to fifth years, inclusive	**6,394**	13,707
	10,145	19,097

(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 2006, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		**Company**	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**12,700**	6,453	**6,017**	6,000
In the second to fifth years, inclusive	**26,766**	23,760	**21,000**	22,000
After five years	**191,356**	195,508	**177,397**	181,795
	230,822	225,721	**204,414**	209,795

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	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted, but not provided for:				
Additional capital contribution into a subsidiary	**—**	—	**31,721**	—
Purchases of plant and machinery	**103,720**	92,129	**84,705**	91,071
Investment in a joint venture	**—**	50,880	**—**	50,880
	103,720	143,009	**116,426**	141,951
Authorised, but not contracted for:				
Purchases of plant and machinery	**93,549**	170,186	**65,540**	170,186
Additional capital contribution into a subsidiary	**—**	—	**159,075**	159,075
Investments in joint ventures	**16,000**	9,360	**16,000**	9,360
	109,549	179,546	**240,615**	338,621
	213,269	322,555	**357,041**	480,572

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	2006 RMB'000	2005 RMB'000
Sales of raw materials, finished goods and components	(i)	**533,119**	362,079
Purchases of raw materials and components	(i)	**668,991**	464,774
Purchases of utilities	(ii)	**132,466**	107,722
Fees paid for welfare and support services	(iii)	**18,087**	34,994
Purchases of transportation services	(iii)	**38,381**	19,537
Research and development expenses paid	(iv)	**35,312**	8,300
Fees paid for the use of land	(v)	**5,000**	5,000
Fees paid for the use of a trademark	(vi)	**11,230**	8,300
Rentals paid in respect of:			
Buildings	(vii)	**1,838**	1,628
Plant and machinery	(vii)	**94**	4,371
Rental income received in respect of:			
Buildings	(viii)	**4,980**	1,380
Plant and machinery	(viii)	**980**	1,400
Sales of plant and machinery	(ix)	**362**	4,800
Purchases of plant and machinery	(x)	**5,633**	6,226
Interest income, inclusive of discounted bill charges	(xi)	**26,949**	27,257
Interest paid for customer deposits	(xii)	**678**	585
Service charge for a guarantee	(xiii)	**1,435**	260

The transactions disclosed above included the significant transactions carried out between the Group and YLDC (which is also a subsidiary of the Holding) and YEMC (in which YLDC holds a 50% interest) for the period from 1 January 2006 to 31 July 2006. This is because YLDC and YEMC became the subsidiaries of the Group since the assets swap transaction was completed in August 2006. In addition, the transactions disclosed above also included the transactions between the Group and an associate, YLCF (in which the Holding holds a 50% equity interest.)

43. RELATED PARTY TRANSACTIONS *(continued)*

(a) Particulars of the significant transactions carried out between the Group, YLDC, YEMC and YLCF, which are included in the transactions disclosed above, are summarised as follows:

	Notes	**2006** **RMB'000**	2005 RMB'000
Sales of raw materials and components	(i)	**170,916**	173,010
Purchases of raw materials and components	(i)	**216,191**	190,812
Rental income received in respect of :			
Buildings	(viii)	**980**	1,380
Plant and machinery	(viii)	**980**	1,400
Interest income, inclusive of discounted bill charges	(xi)	**2,225**	4,973
Interest paid for customer deposits	(xii)	**37**	66

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

	Notes	**2006** **RMB'000**	2005 RMB'000
Sales of raw materials and components	(i)	**10,472**	8,772
Purchases of raw material and components	(i)	**—**	1,651
Interest paid for customer deposits	(xii)	**43**	794

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:

	Notes	**2006** **RMB'000**	2005 *RMB'000*
Sales of finished goods and components	(xiv)	—	9,704
Purchases of raw materials and components	(xiv)	**167**	1,145
Fees paid for the use of a trademark	(xv)	**300**	400
Rentals paid in respect of:			
Land	(xiv)	**920**	920
Buildings	(xiv)	**10**	125
Fees paid for support services	(xiv)	—	100
Fees income received from support services	(xiv)	**735**	—
Management fees paid	(xiv)	**200**	200

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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 does not exceeded 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 does not exceeded the price charged in the immediate preceding year increased by a percentage equal to certain PRC consumer price indexes, whichever is lower.

43. RELATED PARTY TRANSACTIONS *(continued)*

(a) *Notes: (continued)*

(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 does not exceeded the price charged in the immediately preceding year increased by a percentage equal to certain PRC consumer price indexes, whichever is lower. Included in the welfare and supporting services fee in 2005 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 on the basis that such one-off expense is equally borne by the Company and the Holding. There was no such one-off expense in 2006.

(iv) Pursuant to relevant agreements, the pricing in respect of routine research and development services is calculated at a rate of 0.2% (2005: 0.2%) of the Company's net annual turnover. Included in the research and development expense was an amount of RMB25.4 million paid to the Holding's subsidiary, according to the contracted amount.

(v) Pursuant to relevant agreements, the annual rental for the use of land is RMB5 million (2005: 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 a trademark is charged at a rate of 0.2% (2005: 0.2%) of the Company's net annual turnover.

(vii) Pursuant to relevant agreements, the rentals of buildings and plant and machinery were charged with reference to the depreciation of the relevant assets.

(viii) Pursuant to relevant agreements, the rental income of buildings and plant and machinery received is mutually agreed with the related parties.

(ix) The sales of plant and machinery were conducted on mutually agreed terms.

(x) The purchases of plant and machinery were 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 were 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 were conducted with reference to the terms and rates stipulated by the PBOC.

43. RELATED PARTY TRANSACTIONS *(continued)*

(a) *Notes: (continued)*

(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 Mainland China.

(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 RMB300,000 for the year of 2006.

(b) Other transactions with related parties

(i) Designated deposits and designated loans

As at 31 December 2006, the Holding placed a designated deposit of RMB10 million (2005: RMB3.8 million) in FTGF for lending to YLCF.

As at 31 December 2006, Yituo International Commerce Company Limited, a subsidiary of the Holding, placed a designated deposit of RMB2 million (2005: RMB2 million) 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.

(ii) Guarantees provided by the Group to related parties

As at 31 December 2006, FTGF provided guarantees to the extent of RMB100 million (2005: RMB100 million) to certain financial institutions for securing loans granted to the Holding.

(iii) Guarantees provided by related parties to the Group

At 31 December 2006, the Holding provided a guarantee to the extent of RMB124 million (2005: RMB100 million) to a bank for securing the banking facilities granted to the Company. As at 31 December 2006, the aforesaid banking facilities were utilised to the extent of RMB124 million. (2005:RMB30 million)

43. RELATED PARTY TRANSACTIONS *(continued)*

(c) Outstanding balances with related parties:

(i) Details of the Group's amount due from/to the Holding, its loans and deposit 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 notes 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:

	2006	2005
	RMB'000	*RMB'000*
Short term employee benefits	**1,058**	957
Post-employment benefits	**239**	230
Total compensation paid to key management personnel	**1,297**	1,187

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

(e) Asset swap transaction

On 11 May 2006, the Company entered into an assets swap agreement, pursuant to which the Company agreed with China Yituo to exchange the assets of four casting factories at an aggregate consideration of RMB158.24 million for the 58.80% equity interest in YLDC and the 70% equity interest in YLFJ at a consideration of RMB154.75 million and RMB43.27 million respectively. Upon completion of the asset swap transaction in August 2006, the net consideration payable by the Company to China Yituo pursuant to the assets swap agreement was approximately RMB39.78 million.

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 operations 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 provisions 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 for formulating credit policies and determining the cap of facilities, and each credit transaction is 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.

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

Credit risk *(continued)*

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

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 Mainland China. While most of the transactions are conducted in RMB, the Group does not have significant exposure on foreign currency risk. As at 31 December 2006, the Group had short term deposits denominated in United States dollars and Hong Kong dollars of approximately RMB45,971,000 (2005: RMB21,647,000) and RMB27,787,000 (2005: RMB47,456,000), 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 monitors its interest rate risk on a regular basis and makes 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 average interest rates at 31 December for monetary financial instruments:

	2006 Rate %	2005 Rate %
Assets		
Cash and cash equivalents	**0.99%-1.89%**	0.72% - 2.48%
Loans receivable	**5.27%-8.23%**	4.95% - 6.91%
Liabilities		
Customer deposits	**0.72%-3.06%**	0.72% - 2.70%
Interest-bearing bank borrowings	**5.14%-7.96%**	4.80% - 6.98%

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

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the future financial impact of the New Corporate Income Tax Law on the Group cannot be reasonably estimated at this stage.

46. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new HKFRSs 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 20 April 2007.