

Notes to the Financial Statements

For the year ended 31st December, 2004

1. GENERAL

The Company was incorporated on 23rd December, 2002 as a joint stock limited company with limited liability in the People's Republic of China (the "PRC").

The principal activities of the Company are the manufacture and sale of diesel engines.

The H shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 11th March, 2004.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as "new HKFRS(s)") which are effective for accounting periods beginning on or after 1st January, 2005. The Company has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Company has commenced considering the potential impact of the new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Repair services income are recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.



Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation and accumulated impairment losses.

Construction in progress for production or administrative purposes is carried at cost, less any identified impairment loss. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Land use right is amortised over the period of the right using the straight-line method.

Depreciation and amortisation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Buildings	20 years
Plant and machinery	5 to 10 years
Computer, equipment and fixtures	5 years
Motor vehicles	5 years

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development cost incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Intangible assets

Intangible assets are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Investment securities

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Foreign currencies

Transactions in currencies other than Renminbi are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in other currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.



Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

Operating leases

Rental expenses under operating leases are charged to the income statement on a straight-line basis over the relevant lease terms.

Retirement benefit costs

Payments to the defined contribution retirement benefit plans are charged as expenses as they fall due.

Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Company's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Turnover represents the amounts received and receivable for goods sold by the Company during the year.

The Company was solely engaged in the business of manufacture and sale of diesel engines and substantially all of the Company's turnover and operating results were derived from the PRC and accordingly, no analysis of business and geographical segment is presented.

Notes to the Financial Statements

For the year ended 31st December, 2004

5. OTHER OPERATING INCOME

	2004 RMB'000	2003 RMB'000
Other operating income includes:		
Gain on sale of scrap and other materials	29,549	19,713
Amounts waived by trade creditors	2,085	3,931
Sales and warranty period repair services fee income	13,454	2,462
Bank interest income	18,592	2,343
Others	1,257	2,801
	64,937	31,250

6. PROFIT FROM OPERATIONS

	2004 RMB'000	2003 RMB'000
Profit from operations has been arrived at after charging:		
Depreciation and amortisation of property, plant and equipment	54,534	31,105
Amortisation of intangible assets (included in distribution expenses and administrative expenses)	72,595	5,185
Auditors' remuneration	3,000	863
Allowance for bad and doubtful debts	17,244	11,566
Directors' and Supervisors' emoluments (<i>note 8</i>)	5,438	1,964
Staff costs excluding Directors' and Supervisors' emoluments	241,373	132,512
Retirement benefits scheme contributions excluding amounts included in Directors' and Supervisors' emoluments	25,232	22,586
Loss on disposal of property, plant and equipment	1,266	6,775
Cost of inventories recognised as expense	4,053,836	2,368,372

Staff costs disclosed above do not include an amount of approximately RMB13,832,000 (2003: RMB7,888,000) relating to research and development activities, which is included under research and development expenses.

7. FINANCE COSTS

The finance costs for both years represent interest expenses on bank borrowings wholly repayable within five years.



Notes to the Financial Statements

For the year ended 31st December, 2004

8. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' and Supervisors' emoluments

	2004 RMB'000	2003 RMB'000
Directors' and Supervisors' fees	—	—
Other emoluments (Directors):		
Salaries and other allowances:		
— Executive Directors	3,590	1,130
— Non-Executive Directors	700	400
— Independent Non-Executive Directors	250	246
	4,540	1,776
Retirement benefits scheme contributions:		
— Executive Directors	226	23
— Non-Executive Directors	—	—
— Independent Non-Executive Directors	—	—
	226	23
Other emoluments (Supervisors):		
Salaries and allowances	660	160
Retirement benefits scheme contributions	12	5
	672	165
	5,438	1,964

Notes to the Financial Statements

For the year ended 31st December, 2004

8. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' and Supervisors' emoluments (Continued)

The emoluments of the directors and supervisors were within the following bands:

	2004 Number of Directors and Supervisors	2003 Number of Directors and Supervisors
Nil to HK\$500,000	15	17
HK\$500,001 to HK\$1,000,000	3	—
HK\$1,500,001 to HK\$2,000,000	1	—

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Company, four (2003: four) were Executive Directors of the Company whose emoluments are included in the disclosures in note 8(a) above. The emoluments of the remaining one (2003: one) individual was as follows:

	2004 RMB'000	2003 RMB'000
Salaries and allowances	1,525	260
Retirement benefits scheme contributions	3	6
	1,528	266

No emoluments were paid by the Company to the Directors, Supervisors or the five highest paid individuals as an inducement to join or upon joining the Company or as a compensation for loss of office. None of the Directors nor any of the Supervisors waived any emoluments for either 2003 or 2004.

9. INCOME TAX EXPENSE

	2004 RMB'000	2003 RMB'000
PRC Enterprise Income Tax:		
Current year	269,371	178,025
Overprovision in prior year	(240)	—
Tax credit	(63,647)	—
	205,484	178,025



Notes to the Financial Statements

For the year ended 31st December, 2004

9. INCOME TAX EXPENSE (Continued)

PRC Enterprise Income Tax is calculated at statutory income tax rate of 33% (2003: 33%) of the assessable profit except that the Company's Chongqing branch is taxed at a preferential rate of 15% (2003: 15%) pursuant to the relevant laws and regulations in the PRC.

During the year ended 31st December, 2004, the Company established a branch in Hong Kong which is subject to Hong Kong Profits Tax at 17.5% on its estimated assessable profit. No provision for Hong Kong Profits Tax has been made as the branch had no assessable profit for the year.

Pursuant to notices dated 24th February, 2004 and 25th February, 2005 issued by Weifang Municipal Tax Bureau, the Company is entitled to a total tax credit of approximately RMB63,647,000 in respect of eligible additions of domestic machinery and equipment for production use.

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2004	2003
	RMB'000	RMB'000
Profit before taxation	744,364	455,493
Tax at PRC Enterprise Income Tax rate of 33% (2003: 33%)	245,640	150,313
Tax effect of expenses not deductible for tax purpose	39,700	27,712
Effect of different tax rate for the Company's Chongqing branch	(15,969)	—
Overprovision in prior year	(240)	—
Tax credit	(63,647)	—
	205,484	178,025

There was no significant unprovided deferred taxation during the year or at the balance sheet date.

Notes to the Financial Statements

For the year ended 31st December, 2004

10. DIVIDENDS

	2004 RMB'000	2003 RMB'000
Final, paid — 2003: RMB0.105 (2002: Nil) per share	22,575	—
Interim, paid — 2004: RMB0.15 (2003: RMB0.095) per share	49,500	20,439
	72,075	20,439

A final dividend of RMB0.15 for the year ended 31st December, 2004 (2003: RMB0.105 per share which was declared on 18th February, 2004) per share has been proposed by the Directors and is subject to approval by the shareholders in the annual general meeting to be held on 27th May, 2005.

11. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year of approximately RMB538,880,000 (2003: RMB277,468,000) and on the weighted average number of 308,005,000 (2003: 215,000,000) ordinary shares in issue during the year.

12. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress RMB'000	Land and buildings RMB'000	Plant and machinery RMB'000	Computer, equipment and fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
COST						
At 1st January, 2004	148,114	54,971	181,929	15,572	15,660	416,246
Additions	593,754	49,903	75	9,563	2,366	655,661
Transfer	(268,073)	34,182	208,548	8,889	16,454	—
Disposals	—	—	(1,661)	(388)	(49)	(2,098)
At 31st December, 2004	473,795	139,056	388,891	33,636	34,431	1,069,809
DEPRECIATION AND AMORTISATION						
At 1st January, 2004	—	4,825	29,163	3,845	2,982	40,815
Provided for the year	—	4,438	40,367	4,876	4,853	54,534
Eliminated on disposals	—	—	(387)	(117)	(16)	(520)
At 31st December, 2004	—	9,263	69,143	8,604	7,819	94,829
NET BOOK VALUE						
At 31st December, 2004	473,795	129,793	319,748	25,032	26,612	974,980
At 31st December, 2003	148,114	50,146	152,766	11,727	12,678	375,431

Notes:

- (i) All buildings are situated in the PRC.
- (ii) The land use rights are held under medium-term lease.



Notes to the Financial Statements

For the year ended 31st December, 2004

13. INTANGIBLE ASSETS

	Trademarks	Technologies	Total
	RMB'000	RMB'000	RMB'000
	<i>(Note i)</i>	<i>(Note i)</i>	
COST			
At 1st January, 2004	—	222,965	222,965
Acquired from China Heavy Duty Truck Group <i>(Note ii)</i>	119,264	—	119,264
At 31st December, 2004	119,264	222,965	342,229
AMORTISATION			
At 1st January, 2004	—	5,185	5,185
Charge for the year	10,372	62,223	72,595
At 31st December, 2004	10,372	67,408	77,780
NET BOOK VALUES			
At 31st December, 2004	108,892	155,557	264,449
At 31st December, 2003	—	217,780	217,780

Notes:

- (i) The trademarks and technologies are amortised on a straight-line basis over a period of 4.5 years to 8 years.
- (ii) China Heavy Duty Truck Group Co., Ltd. ("CHDTGL") is a substantial shareholder of the Company. CHDTGL and its affiliates other than the Company are collectively referred as China Heavy Duty Truck Group.

14. INVESTMENT SECURITIES

	2004	2003
	RMB'000	RMB'000
Unlisted equity securities	20,000	—

As at 31st December, 2004, the Company held 5.71% registered capital of 山東福田重工股份有限公司, a company established in the PRC.

Notes to the Financial Statements

For the year ended 31st December, 2004

15. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

As at 31st December, 2004, the amount represented the deposits paid to certain vendors for the acquisition of property, plant and equipment. Details of the related capital commitments are set out in note 22.

Included in the balance was a refundable deposit of RMB80,000,000 paid to CHDTGL in relation to a framework agreement dated 27th September, 2004 for the Company to acquire certain assets of Hangzhou Motor Engine Factory, a wholly-owned subsidiary of CHDTGL.

16. INVENTORIES

	2004	2003
	RMB'000	RMB'000
Raw materials	164,498	130,389
Work-in-progress	26,175	34,933
Finished goods	238,476	114,583
	429,149	279,905

No inventories of the Company were stated at net realisable value.



Notes to the Financial Statements

For the year ended 31st December, 2004

17. TRADE DEBTORS

The credit terms granted by the Company to its customers are generally similar and are normally in the range from 30 days to 90 days. However, customers with established trading records could be granted longer credit period. An analysis of trade debtors is as follows:

	2004	2003
	RMB'000	RMB'000
Third party customers	300,481	198,583
Related party customers	187,143	31,719
	487,624	230,302
An ageing analysis is as follows:		
Within 90 days	466,544	200,323
Between 91 to 180 days	5,320	17,936
Between 181 to 365 days	4,146	5,975
Over 365 days	11,614	6,068
	487,624	230,302

The related party customers represented China Heavy Duty Truck Group, 福建龍岩工程機械(集團)有限公司 ("Fujian Longgong") and its affiliates and 廣西柳工集團有限公司 ("Guangxi Liugong") and its affiliates. Details of the relationship with Fujian Longgong and Guangxi Liugong are set out in note 25(a).

Notes to the Financial Statements

For the year ended 31st December, 2004

18. TRADE CREDITORS

An analysis of trade creditors is as follows:

	2004	2003
	RMB'000	RMB'000
Third party suppliers	1,212,276	382,858
Related party suppliers	42,466	26,926
	1,254,742	409,784

An ageing analysis is as follows:

Within 90 days	1,216,911	339,144
Between 91 to 180 days	23,677	56,972
Between 181 to 365 days	8,081	8,272
Over 365 days	6,073	5,396
	1,254,742	409,784

Related party suppliers represented China Heavy Duty Truck Group.

19. UNSECURED BANK BORROWINGS

	2004	2003
	RMB'000	RMB'000
Unsecured bank borrowings	20,000	151,720

The maturity profile of the above bank borrowings is as follows:

On demand or within one year	20,000	31,720
More than one year, but not exceeding two years	—	120,000
	20,000	151,720
Less: Amounts due within one year shown under current liabilities	(20,000)	(31,720)
	—	120,000



Notes to the Financial Statements

For the year ended 31st December, 2004

20. SHARE CAPITAL

	Number of shares		Registered, issued and fully paid RMB'000
	Domestic shares '000	H shares '000	
At 1st January, 2003 and 1st January, 2004	215,000	—	215,000
Conversion of certain state-owned domestic shares to H shares (<i>Note</i>)	(11,500)	11,500	—
Issue of H shares upon listing on the Main Board of the Stock Exchange (including those converted from domestic shares)	—	115,000	115,000
At 31st December, 2004	203,500	126,500	330,000

Note: Pursuant to the approval from the Ministry of Finance of the PRC regarding the sale and conversion of the domestic shares, the total number of H shares issued was 126,500,000 H shares, comprising 115,000,000 new H shares and 11,500,000 H shares converted from 11,500,000 domestic shares.

21. PLEDGE OF ASSETS

At 31st December, 2004, bank deposits and bills receivable of approximately RMB334,445,000 (2003: RMB391,578,000) and RMB119,876,000 (2003: RMB77,115,000) respectively were pledged to secure bills payable issued by banks for the Company.

Notes to the Financial Statements

For the year ended 31st December, 2004

22. CAPITAL COMMITMENTS

	2004	2003
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Purchase of property, plant and equipment	423,631	208,287
Acquisition of trademarks	—	124,448
	423,631	332,735
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	340,180	—

As set out in note 15, the Company paid a refundable deposit of RMB80,000,000 to CHDTGL for the proposed acquisition of certain assets pursuant to a framework agreement dated 27th September, 2004. The final amount of the consideration for the acquisition, if the transaction goes ahead, is yet to be determined.

23. OTHER COMMITMENTS

In conjunction with China Heavy Duty Truck Group, the Company entered into research and development contracts with AVL List GmbH, a third party, with a contract sum of approximately Euro6.6 million (equivalent to approximately RMB68,741,000).

As at 31st December, 2004, the outstanding commitment amounted to approximately Euro1,445,000, equivalent to approximately RMB15,242,000 (2003: Euro3,965,000, equivalent to approximately RMB41,331,000).



Notes to the Financial Statements

For the year ended 31st December, 2004

24. OPERATING LEASE COMMITMENTS

The Company as lessee

	2004	2003
	RMB'000	RMB'000
Minimum lease payments paid under operating leases during the year:		
Plant and machinery	30,117	15,059
Premises	18,712	10,372
	48,829	25,431

At the balance sheet date, the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2004	2003
	RMB'000	RMB'000
Within one year	48,620	47,296
In the second to fifth year inclusive	118,508	162,383
	167,128	209,679

Operating lease payments represent rentals payable by the Company for certain of its plant and machinery and premises. Leases are negotiated for a term ranging from 1 year to 5 years.

Notes to the Financial Statements

For the year ended 31st December, 2004

25. CONNECTED PERSONS AND RELATED PARTIES DISCLOSURE

- (a) During the year, the Company had the following significant transactions with related parties and connected persons:

Related parties and connected persons	Notes	2004	2003
		RMB'000	RMB'000
China Heavy Duty Truck Group:			
Sales of goods	(iii)	1,991,563	807,930
Sales of semi-finished diesel engine parts	(iii)	12,274	66,252
Purchases of materials other than semi-finished diesel engine parts	(iii)	124,768	602,725
Purchases of semi-finished diesel engine parts	(iii)	—	169,731
General services fee paid	(v)	21,288	13,287
Utility services fee paid	(vi)	123,494	62,454
Processing services fee	(vii)	89,178	31,219
Sales and warranty period repair services fee income	(viii)	13,454	2,462
Purchases of property, plant and equipment	(ix)	—	65,021
Purchases of property, plant and equipment	(iv)	88	—
Disposal of property, plant and equipment	(iv)	196	4,296
Purchase of technologies	(x)	—	222,965
Purchase of trademarks	(xi)	119,264	—
Trademarks fee paid	(xii)	5,184	15,552
Technologies fee paid	(xiii)	—	57,035
Rental paid for certain premises, machinery and equipment	(xiv)	46,218	23,109
Fujian Longgong Group (i):			
Sales of goods	(iii)	317,715	216,378
Guangxi Liugong Group (ii):			
Sales of goods	(iii)	335,463	221,525

Notes:

- (i) Fujian Longgong is a promoter of the Company and holds 6.52% interest in the Company at 31st December, 2004. Fujian Longgong together with its affiliates are collectively referred as the "Fujian Longgong Group".
- (ii) Guangxi Liugong is a promoter of the Company and holds 1.36% interest in the Company at 31st December, 2004. Guangxi Liugong together with its affiliates are collectively referred as the "Guangxi Liugong Group".



Notes to the Financial Statements

For the year ended 31st December, 2004

25. CONNECTED PERSONS AND RELATED PARTIES DISCLOSURE (Continued)

- (a) During the year, the Company had the following significant transactions with related parties and connected persons:
(Continued)
- (iii) These transactions were carried out at market prices or, where no market prices were available, at cost plus a mark-up.
 - (iv) These transactions were carried out on terms mutually agreed by the relevant parties.
 - (v) The general services fee was based on the actual cost incurred plus 20% service charge.
 - (vi) The utility services fee was based on the actual usage and with reference to market prices or, where no market prices were available, at actual cost incurred plus 20% service charge.
 - (vii) The processing services fee was based on the actual cost incurred plus 20% service charge.
 - (viii) The sales and warranty period repair service fee income was based on 3% on the sales of medium speed diesel engines on behalf of China Heavy Duty Truck Group.
 - (ix) The consideration for the acquisition of the plant and equipment was based on a valuation report of the related assets prepared by Vigers Appraisal & Consulting Limited ("Vigers") dated 30th June, 2003.
 - (x) The consideration for the acquisition of technologies was based on a valuation report of the relevant intangible assets prepared by Vigers dated 26th February, 2004.
 - (xi) the consideration for the acquisition of trademarks was based on a valuation report of the relevant intangible assets prepared by Vigers dated 26th February, 2004.
 - (xii) The trademarks fee was calculated with reference to a valuation prepared by Vigers of the relevant trademarks as of 1st January, 2003.
 - (xiii) The technologies fee was calculated with reference to a valuation prepared by Vigers of the relevant technologies as of 1st January, 2003.
 - (xiv) Rental for certain premises, machinery and equipment were charged based on a fixed monthly charge.

In the opinion of the Directors, the above transactions were carried out in the ordinary course of the Company's business.

- (b) Details of the trading balances with related parties are set out in notes 17 and 18. These trading balances arose from the transactions set out in note 25(a)(iii).

Notes to the Financial Statements

For the year ended 31st December, 2004

25. CONNECTED PERSONS AND RELATED PARTIES DISCLOSURE (Continued)

(c) Details of the non-trade balances with related party are as follows:

	2004	2003
	RMB'000	RMB'000
(i) Amount due to a related party		
China Heavy Duty Truck Group (Note)	292,751	219,651

Note: As at 31st December, 2004, included in the balance due to China Heavy Duty Truck Group was an amount of approximately RMB269,635,000 (2003: approximately RMB217,780,000) which represented the balance of the consideration payable for the acquisition of technologies and trademarks from China Heavy Duty Truck Group. The amount is repayable as follows:

	2004	2003
	RMB'000	RMB'000
Within one year	67,409	43,556
In the second year	67,409	43,556
In the third to fifth year inclusive	134,817	130,668
	269,635	217,780
Less: Amount due for settlement within one year (including under current liabilities)	(67,409)	(43,556)
	202,226	174,224

The amount is unsecured, interest-free and repayable in instalments over a period of 5 years.

(ii) As at 31st December, 2004, included in the balance of deposits paid for acquisition of property, plant and equipment was a refundable deposit of RMB80,000,000 (2003: Nil) paid to CHDTGL for the proposed acquisition of certain assets pursuant to a framework agreement dated 27th September, 2004.

26. POST BALANCE SHEET EVENT

Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation concerning certain preferential policies on enterprise income tax (財政部、國家稅務總局《關於企業所得稅若干優惠政策的通知》) and the Notice of the State Administration of Taxation concerning the proper implementation of the continuing administrative work after the cancellation and delegation of the examination and approval procedure for enterprise income tax (國家稅務總局《關於做好已取消和下放管理的企業所得稅審批項目後續管理工作的通知》), as the Company is a high technology enterprise with registered office situated at a high technology development zone administered by the State ("State Industrial Park"). Since 2005, the Company is entitled to enjoy a preferential income tax rate of 15% on its assessable profit to the extent that it is derived from production in the State Industrial Park.