FIRST TRACTOR COMPANY LIMITED

第一拖拉機股份有限公司

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 0038)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

FINANCIAL HIGHLIGHTS

Turnover :	**RMB4,246,554,000**
Net profit :	**RMB11,961,000**
Earnings per share :	**RMB1.52 cents**

The board (the "Board") of directors (the "Directors") of First Tractor Company Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2004, which have been prepared in accordance with the generally accepted accounting principles in Hong Kong, together with 2003 comparative figures, set out (unless otherwise stated, the figures contained in this announcement are denominated in Renminbi) as follows:

AUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Prepared Under Hong Kong Accounting Standards)

	Notes	Year ended 31 December 2004 *RMB'000*	2003 *RMB'000*
TURNOVER	3	**4,246,554**	3,277,297
Cost of sales		**(3,905,535)**	(2,912,313)
Gross profit		**341,019**	364,984
Other revenue and gains		**114,027**	109,814
Selling and distribution costs		**(154,561)**	(126,616)
Administrative expenses		**(241,439)**	(237,211)
Other operating expenses, net		**(30,829)**	(55,885)
PROFIT FROM OPERATING ACTIVITIES	4	**28,217**	55,086
Finance costs	5	**(9,719)**	(9,770)
Share of profits and losses of associates		**9,419**	10,950
Negative goodwill on acquisition of an associate recognised as income during the year		**606**	606
PROFIT BEFORE TAX		**28,523**	56,872
Tax	6	**(18,663)**	(23,847)
PROFIT BEFORE MINORITY INTERESTS		**9,860**	33,025
Minority interests		**2,101**	(16,697)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**11,961**	16,328
DIVIDEND	7	**—**	—
EARNINGS PER SHARE - Basic	8	**1.52 cents**	2.08 cents

Notes:

1. **Basis of preparation**

   The results of the year have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), generally accepted accounting principles in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of debt and equity investments.

2. **Impact of recently issued Hong Kong Financial Reporting Standards ("HKFRSs")**

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

3. **Turnover and segment information**

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

   No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China.

4. **Profit from operating activities**

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

	2004 ***RMB'000***	2003 *RMB'000*
Cost of inventories sold	**3,905,535**	2,912,313
Depreciation	**89,867**	99,801
Impairment/(reversal of impairment) of construction in progress	**(7,802)**	6,405
Impairment/(reversal of impairment) of fixed assets, net	**(15,252)**	(11,800)
Provision and write off of bad and doubtful debts, net	**45,506**	271
Provision for loans receivable	**648**	4,383
Provision for obsolete inventories, net	**7,448**	3,308
Provision/(reversal of provision) for other receivable	**(17,720)**	25,000
Loss/(gain) on disposal of fixed assets	**(320)**	14,727
Gain on disposal of subsidiaries	**—**	(41,000)
Gain on disposal of an associate	**—**	(3,600)
Unrealised loss on changes in fair values of short term listed investments	**1,837**	—
Investment income from short term listed investments	**(1,400)**	(2,100)
Dividend income from short term listed investment	**(1,061)**	—
Loss/(gain) on disposal of short term listed investments	**680**	(14)
Dividend income from long term unlisted investments	**(501)**	(1,602)
Gain on disposal of long term unlisted investments	**(14,529)**	(50)
Interest income	**(5,048)**	(5,529)
Interest income from financial operations	**(39,069)**	(18,693)
Negative goodwill on acquisition of a subsidiary recognised as income during the year	**(234)**	(235)

5. Finance costs

	2004	2003
	RMB'000	*RMB'000*
Interest on bank and other loans wholly repayable within five years	**9,719**	9,770

6. Tax

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

No provision for Hong Kong profits tax has been made as the Group had no assessable profits earned in or derived from Hong Kong during two years ended 31 December 2004 and 2003.

The PRC corporate income tax for the Company and its subsidiaries is calculated at rates ranging from 10% to 33% (2003: 12% to 33%) on their estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof.

Profits tax for the subsidiaries of the Company operating outside the People's Republic of China (the "PRC") is subject to the rates applicable in the relevant jurisdictions. No provision for overseas profits tax has been made for the Group as there were no assessable profits for the year (2003: Nil).

The PRC corporate income tax for the associates of the Company is calculated at rates ranging from 15% to 33% (2003: 15% to 33%) on the respective company's assessable profits determined in accordance with the relevant PRC laws and regulations.

No recognition of the potential deferred tax assets relating to the unused tax losses and other deductible temporary differences have been made as the recoverability of the potential deferred tax assets is uncertain.

No deferred tax liabilities have been recognised in respect of the temporary differences associated with undistributed profits of the subsidiaries of the Company 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.

7. Dividend

The Directors do not recommend the payment of any dividend for the year ended 31 December 2004 (2003: Nil).

8. Earnings per share

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

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

9. Comparative amounts

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

BUSINESS REVIEW

During the reporting period, the agricultural machinery business, one of the two principal businesses of the Company, achieved a noticeable increase whereas the construction machinery business, the other of the two principal businesses, saw an overall downturn.

AGRICULTURAL MACHINERY BUSINESS

During the reporting period, agricultural machinery business realised a turnover of RMB3,064,060,000, representing an increase of 44.3% over last year, with substantial increase in the large wheeled tractor business among other businesses of the Group.

In 2004, the Group sold 156,971 units of wheeled tractors in various types, of which:

— the sales volume of large wheeled tractors was 8,583 units, increased 140.89% over the same period last year;

— the sales volume of medium wheeled tractors was 3,624 units, increased 36.09% over the same period last year;

— the sales volume of small wheeled tractors was 144,764 units, increased 19.89% over the same period last year.

During the year, the Group's spare parts business maintained a growing trend and revenue received from external operations increased by 70.05% to RMB466,340,000.

CONSTRUCTION MACHINERY BUSINESS

During the reporting period, the construction machinery business realised a turnover of RMB1,182,482,000, representing an increase of 2.86% over last year. Sales of some construction machinery such as industrial bulldozers, road rollers and pavers, the backbone of the operating results of the Group, decreased enormously. Although there was a considerable increase in the sales volume of other construction machinery products and new products, such increase failed to curb the backsliding operating results of the construction machinery business of the Group.

In 2004, the Group sold 7,890 units of construction machinery in various types, of which:

— the sales volume of industrial bulldozers decreased 22.95% as compared with the same period last year;

— the sales volume of road rollers decreased 22.19% as compared with the same period last year;

— the sales volume of pavers decreased 38.58% as compared with the same period last year.

EXPORT BUSINESS

During the reporting period, the Group recorded a profit of US$14,493,000 from export business, increased 42.2% over the same period last year. The Group exported 760 units of tractors, increased 239.3% over the same period last year, and 105 units of construction machinery. The said products were mainly exported to Southeast Asia, Northeast Asia, South Asia, Africa, South America and Europe.

RESEARCH AND DEVELOPMENT OF NEW PRODUCTS

During the reporting period, the Group continuously developed and launched a number of new products in accordance with the changing customers' demands. New products mainly comprised:

(A) Agricultural machinery products:

— The Group researched, improved and developed various types of tractors, including 1004YZ/1204YZ, 1604/1804, X700/1204 and X550 series "Dongfanghong" tractors and 20-40 HP electric start-up tractors.

— The Group researched and developed new luxurious "Century Wind" harvest machinery, which is in the progress of making an application for patent of utility model in the PRC.

(B) Construction machinery products:

The Group developed and launched LSS220D, LRS1626H and 3YJ18 x 21 rolling machinery; T120 series, T140D, ZL50G, ZL50H, ZL50DX and ZL30 earth moving machinery; 2.1M milling machinery; WBS650, BUD1120, BUD1150, BUD1130 and other mixing machinery.

BUSINESS REORGANISATION

In line with the overall development strategy, the Group integrated its resources and reorganised its businesses during the reporting period:

— To integrate its marketing resources of construction machinery products, the Group established Yituo (Luoyang) Construction Machinery Sales Company Limited ("Yituo Construction") for the sales of most of the Group's construction machinery products. Yituo Construction commenced its operation in December 2004.

— Reorganisation of the agricultural machinery business: taking full use of the reserve resources of its agricultural machinery, the Group established Yituo (Luoyang) Agricultural Tools Company Limited to provide ancillary agricultural tools to customers.

CORPORATE GOVERNANCE

— The Company took efforts to improve the corporate governance in strict compliance with (i) the relevant regulations and rules on corporate governance of listed companies promulgated by domestic and overseas regulatory authorities; and (ii) in accordance with the articles of association of the Company (the "Articles of Association").

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— The Company set up an audit committee of the Board and a remuneration and auditing committee of the Company. In such special committees, independent non-executive Directors represented a majority and served as the chairman.

— While attending the meetings of the Board and the special committees, the independent non-executive Directors provided constructive opinions and recommendations in accordance with the relevant laws and regulations and expressed their independent opinions, thus performing their duties with due diligence.

— Directors and senior management of the Company accepted the supervision of the supervisory committee of the Company in accordance with the Articles of Association. Supervisors of the Company (the "Supervisors") attended the Board meetings, and gave their opinions with respect to major decisions made by the Board when performing their supervisory duties.

BUSINESS OUTLOOK

To cater for the changing customers' needs with the aim at becoming an excellent manufacturer of agricultural and construction machinery in the PRC, the Group will focus on the improvement of operating results and adjustment to product and sector structures to consolidate the core businesses and reinforce the operating strength of the Group, thus enhancing the stable growth in the operating results and realising the operating targets of the Group in 2005.

1. **ADVANCING ADJUSTMENT TO THE PRODUCT MIX OF AGRICULTURAL MACHINERY**

Crawler tractors: focusing on adjustment to the product mix, the Company will build a full spectrum of crawler tractors including customised series of small power crawler tractors, large power crawler tractors and series of hydraulic excavators, so as to explore and develop new markets and new products.

Large/medium wheeled tractors (note 1): as driven by the national and local governments' subsidies for upgrading the agricultural machinery, the demand for large/medium wheeled tractors is expected to increase. Capturing such an opportunity, the Group will accelerate the technological renovation for large wheeled tractors, improve techniques and quality assuring capability, achieve production in scale within the shortest time and maintain the leading position in the technology and the industry in the PRC. For medium wheeled tractors, emphasis will be put on development of 25-35 HP tractors, renovation of 30-40 HP tractors and preparations for exported types of machinery to create product distinctive advantages for fast growth.

Small wheeled tractors (note 2): facing the homogenised and fierce market competition, the Group will shape a branding concept and integrate industry resources by its branding strategy, emphasing on the importance of the brand advantage. At the same time, the Group will continue to introduce cost-effective means to secure a larger market share to maintain and improve the existing market share.

Agricultural machinery: for harvest machinery products, the Group will form series of product lines focusing on wheat and rice harvesters in accordance with the product development philosophy of "transforming, innovative and unique" to address customers' needs. By utilising the brand advantage of "Dongfanghong", the Group will speed up the development of the ancillary agricultural machinery business, paving a way to a further advance.

Spare parts: capitalising on its technical and technological resources, the Group will capture the market cut-in for developing crank shaft processing products and gear case products and thereby prolonging the industry chain, increasing the value added to products, giving shape to the advantageous brands to the spare parts business and laying a strategic foundation for the leading position of the spare parts business.

Note 1: it is an industry's practice to define tractors with power ranging from 18.4KW (25 HP) - 58.5KW (80 HP) as medium tractors and tractors with working frequency over 58.5KW as large tractors.

Note 2: it is an industry's practice to define tractors with power of below 18.4KW (25 HP) as small tractors.

2. **ESTABLISHING THE DEVELOPMENT STRATEGY FOR CONSTRUCTION MACHINERY PRODUCTS BASED ON ADJUSTMENT TO THE PRODUCT MIX AND OPERATING STRATEGIES**

(1) Under an integrated strategic layout, the Group will determine the direction for the adjustment to the product mix and operating strategies according to the characteristics and strengths of each of its subsidiaries.

(2) Keeping abreast of the development of construction machinery, the Group will expedite its research and development of new products and apply new technologies and techniques to construction machinery products and improve their performance and reliability.

(3) To address the demands from customers, the Group will explore new markets for large loaders and hydraulic excavators, small loaders and excavators as well as small maintenance machinery, and increase its market share with continuous growth in sales volume.

(4) By fully exerting the resources advantage and distributing platform of Yituo Construction, the Group will integrate the distributing channels and service networks and operate with financial institutions to develop new distributing network.

3. **STRENGTHENING EXPORT AND ACTIVELY SEEKING INTERNATIONAL COOPERATION TO SECURE MORE INTERNATIONAL MARKET SHARE**

In 2005, the Group will expand and deepen the international cooperation with emphasis on key products, markets and projects.

(1) The Group will adjust exported product mix and extend an active presence in international competition of key exported products including large/medium wheeled tractors, construction machinery and forging parts.

(2) The Group will make good preparations for international cooperation plans for large wheeled tractors and agricultural tools to attract international investors, aiming at achieving a breakthrough in the utilisation of international resources, capital and technologies.

(3) The Group will take efforts in the promotion of the brand advantage of "Dongfanghong" to increase its worldwide recognition and expand the coverage of its international market network to secure a stable customers base.

4. **IMPROVING MANAGEMENT WITH INNOVATIVE THINKING**

Possessed with excellent talents, advanced concept and managerial evolving as foundation and leveraging scientific tools and methods, the Group will focus on managing its manufacturing and sales of products, procurement and capital so as to explore better business operations.

5. **THE GROUP WILL CONTINUE TO REORGANISE, INTEGRATE ITS RESOURCES AND BUSINESS TO IMPROVE ITS OPERATING RESULTS AND RETURN ON INVESTMENT**

ANALYSIS OF FINANCIAL RESULTS

For the year ended 31 December 2004, the Group recorded a turnover of RMB4,246,554,000, representing an increase of 29.57% over the same period last year. Consolidated profit after tax and minority interests amounted to RMB11,961,000, representing a decrease of 26.75% over the same period last year. Earnings per Share was RMB1.52 cents.

THE GROUP'S TURNOVER BY BUSINESS CLASSIFICATION FOR 2003 - 2004:

Classification by business	January - December 2004 *RMB'000*	January - December 2003 *RMB'000*	Increase / decrease (+ / -)
Tractor business	**2,953,914**	2,014,219	+46.65%
Road machinery business	**802,655**	886,514	-9.46%
Construction machinery business	**379,827**	263,099	+44.37%
Harvesting machinery business	**110,146**	109,036	+1.02%
Others	**12**	4,429	-99.73%
Total turnover	**4,246,554**	3,277,297	+29.57%

TRACTOR BUSINESS

In 2004, the Group recorded a rapid growth in tractor business with an increase of 46.65% in turnover as compared with the same period of last year, representing 69.56% of the Group's turnover. Reasons for the rapid growth in tractor business are set out below:

(1) with the implementation of the policy of "Two Exemptions and Three Subsidies" (note 3) adopted by the government of the PRC for supporting agricultural development, the burden of farmers were alleviated with increased income, thus boosting the demand in tractor market.

(2) the Group amended its traditional sales model by focusing on key areas and subdividing markets to expand new markets.

(3) for the convenience of customers, the Group strengthened the network for after-sales service and spare parts supply, thus gaining customers' satisfaction.

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(4) new products of large/medium wheeled tractors were developed and launched into the market to address the needs of the customers.

(5) as for small wheeled tractors, the Company integrated industry resources through joint ventures and cooperation to give full brand advantage of "Dongfanghong". Accordingly, the market share of the Company for 2004 climbed to 27.85% from 23% for 2003.

Note 3: Two exemptions: exemption of the agricultural tax and exemption of taxes on special agricultural products (exclusive of tobacco leafs).

Three subsidies: the direct grain subsidy, the subsidy on improved breed of wheat and paddy rice and the subsidy for purchase of agricultural machinery.

HARVESTING MACHINERY BUSINESS

As affected by the over-supply of wheat harvesters in 2003, sales volume of wheat harvesters in the PRC for 2004 declined to 12,000 units, representing a substantial year-on-year decrease of over 70%. With more efforts on branding services, the Group took initiatives such as follow-up services before, after and in the course of sales. Sales of harvesting machinery amounted to 1,773 units, representing a year-on-year decrease of 5.03%, but the market share for 2004 increased to 14.3% from 4.12% in 2003. Therefore, industry position of the Company rose to No. 3 in 2004 from No. 7 in 2003.

CONSTRUCTION MACHINERY BUSINESS AND ROAD MACHINERY BUSINESS

Due to the influence of the PRC macro-control policy in 2004, the serious decline in demand in the nationwide market of construction machinery business and road machinery business, together with the increase in competitive pressure, the growth of construction machinery and road machinery businesses of the Group were seriously affected. As a result, the growth rate of the Group's turnover dropped to 2.86% in 2004 from 47.15% in 2003.

By developing new products, improving product quality, reducing production cost and adopting differentiated marketing strategies, the Group realised a significant increase in the sales volume of small excavator and loader.

ANALYSIS OF OPERATING RESULTS

In 2004, the consolidated profit of the Group after tax and minority interests amounted to RMB11,961,000, representing a decrease of 26.75% over last year. Gross profit of the Group decreased by 3.1 percentage point over last year. The reasons for the downfall of the operating results of the Group are as follows:

(1) it is affected by the increase in the price of steel materials, resulting in an increase in the cost of raw materials;

(2) it is affected by market competition in construction machinery and road machinery. For the development of new market, the Group adopts the measure of decreasing the sales price for those products so as to cope with high pressure market competition.

CAPITAL LIQUIDITY AND FINANCIAL ANALYSIS

The detailed table of the Group's major current assets:

	31 December 2004 *RMB'000*	31 December 2003 *RMB'000*	Increase/ decrease (+ / -)
Cash and bank deposits	**466,643**	800,584	-41.71%
Trade and bills receivables	**490,690**	410,611	+19.50%
Inventories	**865,110**	773,847	+11.79%

In 2004, the Group recorded a year-on-year decrease of approximately RMB333,941,000 in cash and bank deposits, mainly attributable to the growth in external loans granted by the Company's subsidiary, China First Tractor Group Finance Company Limited ("FTGF"), for developing its financing business. In addition, the increase in inventories of the Group also contributed to the decrease in cash and bank deposits of the Group.

The accounts receivable and inventories of the Group for 2004 increased by 19.5% and 11.79% respectively, mainly attributable to the impact of PRC macro-control policy. Some unmarketable construction machinery and road machinery resulted in the decrease in collection rate of trade receivables from product sales, leading to the increase in accounts receivable and inventories level.

As at 31 December 2004, the bank loans of the Group amounted to RMB96,660,000, an increase of RMB31,363,000 over last year. The long-term bank loan of the Group is zero.

INVESTMENTS

During the reporting period, Yituo (Luoyang) Diesel Co., Ltd. and First Tractor Ningbo C.S.I. Tractor & Automobile Corp. Ltd., (associates of the Group) contributed profits to the Group.

Other associates of the Group, Yituo (Luoyang) Casting and Forging Company Limited and Luoyang First Motors Company Limited incurred loss for the Group.

ANALYSIS OF ASSETS AND FINANCIAL POSITION OF THE GROUP

Financial Statistics:

Items	Basis of calculation	31 December 2004	31 December 2003
Gearing ratio	Total liabilities/total assets x 100%	**43.09%**	43.58%
Current ratio	Current assets/current liabilities	**1.66**	1.76
Quick ratio	(Current assets - inventories)/current liabilities	**1.05**	1.23
Debt equity ratio	Total liabilities/Shareholders' equity x 100%	**75.71%**	77.23%

Analysis of Equity and Reserves:

Items	31 December 2004 *RMB'000*	31 December 2003 *RMB'000*	Increase/ (decrease) *RMB'000*
Share capital	**785,000**	785,000	—
Share premium account	**1,378,840**	1,378,840	—
Statutory surplus reserve	**65,597**	61,699	3,898
Statutory public welfare fund	**63,171**	62,749	422
Reserve fund	**2,398**	1,759	639
Enterprise expansion fund	**2,974**	1,515	1,459
Retained profits/(accumulated losses)	**(220,849)**	(226,392)	5,543

PLAN FOR SIGNIFICANT INVESTMENT AND ACQUISITION OF CAPITAL ASSETS OF THE GROUP IN FUTURE

There was no plan for significant investment and acquisition of capital assets of the Group in 2005.

CURRENCY EXCHANGE RISK

The Group carries out its day-to-day business activities mainly in the PRC. A large amount of capital income and expenditure is principally denominated in Renminbi, with a small amount of expenditure being denominated in Hong Kong dollars. The Group's debt denominated in foreign currency is mainly applied for the payment of commissions outside the PRC and payment of dividends to holders of H Shares. The Group's cash balances are usually deposited with financial institutions in the form of short-term deposits. Bank loans were borrowed in Renminbi which can be repaid out of the income received in Renminbi.

As at 31 December 2004, there was no pledge of any deposit of foreign currency of the Group.

PLEDGE OF ASSETS

As at 31 December 2004, the Group's certain buildings and machinery with an aggregate net carrying value of approximately RMB27,417,000 (2003: buildings and machinery of RMB27,779,000; time deposits of RMB13,233,000 and inventories of RMB8,967,000) were pledged to banks to secure certain short term bank loans granted to the Group.

In addition, the Group's deposits amounting to approximately RMB69,206,000 (2003: deposits of RMB103,714,000 and bills receivable of RMB16,000,000) were pledged to banks to secure certain banking facilities (including issuance of bills payable) of the Group.

CONTINGENT LIABILITIES

As at 31 December 2004, FTGF, acting as the second guarantor, had given guarantee to the extent of RMB52 million for Yituo (Luoyang) Fuel Jet Co. Ltd.

THE COMPANY'S STAFF AND TRAINING FOR STAFF

As at 31 December 2004, the Company had a total of 11,908 staff of whom 7,232 were production staff, 454 were engineering technicians, 160 were financial staff, 261 were administrative staff, and 3,801 were marketing and other staff.

In 2004, the Company conducted "training as required" in a number of ways. 12,180 staff in different areas were trained so that the professional quality of the staff was raised.

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PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the reporting period.

CHANGE IN SHAREHOLDING AND STRUCTURE OF EQUITY INTERESTS OF SHAREHOLDERS

As at 31 December 2004, the total issued shares of the Company ("Shares") amounted to 785,000,000 Shares. Its structure of equity interests was as follows:

Type of Shares	Number of Shares	Percentage(%)
(1) Non-circulating state-owned legal Shares	450,000,000	57.32
(2) Circulating and listed in The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (H Shares)	335,000,000	42.68
Total number of share capital	785,000,000	100.00

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the following shareholders (other than a Director, Supervisor or chief executives of the Company) have interests or short positions of the shares and underlying shares in the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"):

Domestic Shares:

Name of shareholder	Nature of interest	Number of Shares (Note 1)	Approximate percentage of the total issued share capital of the Company
China Yituo Group Corporation Limited ("China Yituo")	Beneficial owner	450,000,000 (L)	57.32%

H Shares:

Name of shareholder	Nature of interest	Number of Shares (Note 1)	Approximate percentage of the total issued H Shares of the Company
GE Asset Management Incorporated	Investment manager	42,710,000 (L)	12.74%

Notes:

1. The letter "L" represents the entities' long position in the Shares.

2. According to the Corporate Substantial Shareholder Notice submitted by State Street Corporation to the Company dated 11 May 2004, State Street Corporation is the holding company of an approved lending agent and 21,372,000 H Shares are held in a lending pool.

Save as disclosed, there is no other person (other than a Director, Supervisor or chief executives of the Company) who, as at 31 December 2004, had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

On the basis of publicised information and to the best knowledge of the Directors, the Company has maintained the prescribed public float under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as at the date of this announcement.

STAFF QUARTER

As all staff quarters have been retained by the controlling shareholder of the Company, the Company does not have any staff quarters to sell to its staff. Pursuant to the Company's existing policy, the staff of the Company shall buy the staff quarters at their own expenses (including quarters retained by the controlling shareholder of the Company).

DESIGNATED DEPOSIT AND DEPOSIT DUE

The Company deposited a sum of RMB123,273,000 with FTGF, which is a non-banking financial institution approved by The People's Bank of China, and is principally engaged in providing financial and monetary services to the group members of China Yituo. Save as the aforesaid deposits, the Company did not have any deposits deposited with any non-banking financial institution.

The Company granted a loan of RMB62,000,000 to its subsidiaries. The loan was granted in the form of designated deposits deposited with FTGF. The Company did not have any designated deposit other than the aforesaid. Save for the above-mentioned deposits in FTGF, all the cash deposits of the Company were deposited with commercial banks in the PRC in compliance with the relevant laws and regulations. The Company has not experienced any incident of not being able to withdraw bank deposits when due.

STAFF'S BASIC MEDICAL INSURANCE

Since September 2001, the Company has implemented the staff's basic medical insurance scheme of Luoyang towns and townships. Under the procedures and the implementing rules, basic medical insurance and subsidy to serious illness of the Company's existing staff are stated as staff welfare.

AUDIT COMMITTEE

The Company has set up an independent audit committee of the Company (the "Audit Committee") as required under the Listing Rules in order to perform the functions of reviewing and inspecting the procedures for the Group's financial reporting and internal surveillance. The Audit Committee comprises of three independent non-executive Directors.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters of the Group including a review of the audited accounts of the Group for the year ended 31 December 2004.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted a code of practice (the "Model Code") with standards not lower than those prescribed in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules for securities transactions conducted by the Directors. During the reporting period, all Directors have complied with the Model Code in relation to securities transactions conducted by the Directors.

CODE OF BEST PRACTICE

The Board considered that the Company was in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules during the reporting period.

MATERIAL LITIGATION

During the reporting period, none of the Company, the Directors, supervisors nor senior officers of the Company was involved in any material litigation or arbitration.

ANNOUNCEMENT OF FURTHER INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

The Company will submit a CD Rom to the Stock Exchange containing all of the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules for publication on the website of the Stock Exchange (www.hkex.com.hk) in due course.

By Order of the Board
Liu Da Gong
Chairman

Luoyang, the PRC
22 April 2005

As at the date of this announcement, the Board comprises ten executive Directors, namely, Mr. Liu Da Gong (Chairman), Mr. Liu Wen Ying, Mr. Zhao Yan Shui, Mr. Yan Lin Jiao, Mr. Li Teng Jiao, Mr. Shao Hai Chen, Mr. Zhang Jing, Mr. Li You Ji, Mr. Liu Shuang Cheng and Mr. Zhao Fei, and four independent non-executive Directors, namely Mr. Lu Zhong Min, Mr. Tao Xiang, Mr. Chen Zhi and Mr. Chan Sau Shan, Gary.