



第一拖拉机股份有限公司 FIRST TRACTOR COMPANY LIMITED

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

(Stock code : 0038)



INTERIM REPORT 2007

The board (the “**Board**”) of directors (the “**Directors**”) of First Tractor Company Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2007 (the “**Reporting Period**”) with the comparative figures for the corresponding period in 2006. The condensed consolidated interim financial statements are unaudited, but have been reviewed by the audit committee (the “**Audit Committee**”) of the Company.

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2007.



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

		For the six months ended 30 June	
		2007	2006
	Notes	Unaudited RMB'000	Unaudited RMB'000
REVENUE	3	3,595,702	3,076,351
Cost of sales		(3,141,865)	(2,765,328)
Gross profit		453,837	311,023
Other income and gains	3	128,608	46,281
Selling and distribution costs		(116,895)	(109,464)
Administrative expenses		(239,395)	(159,098)
Other operating expenses, net		(27,324)	(33,191)
Finance costs	4	(14,979)	(4,941)
Share of profits and losses of associates		(3,150)	5,393
PROFIT BEFORE TAX	5	180,702	56,003
Tax	6	(50,819)	(24,110)
PROFIT FOR THE PERIOD		129,883	31,893
Attributable to:			
Equity holders of the parent		119,730	30,519
Minority interests		10,153	1,374
		129,883	31,893
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic		RMB15.25 cents	RMB3.89 cents

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2007

		As at 30 June 2007 Unaudited RMB'000	As at 31 December 2006 Audited RMB'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	8	998,818	1,005,697
Construction in progress	8	225,281	226,543
Prepaid land premiums	9	19,826	20,192
Goodwill		52,990	52,990
Interests in associates		20,499	20,449
Available-for-sale investments		144,602	251,399
Loans receivable	10	1,769	146,699
Deferred tax assets		45,688	34,273
		<hr/>	<hr/>
Total non-current assets		1,509,473	1,758,242
CURRENT ASSETS			
Inventories		780,349	852,366
Trade and bills receivables	11	1,172,269	744,774
Loans receivable	10	312,722	174,820
Bills discounted receivable	12	86,358	219,561
Prepayments, deposits and other receivables	13	426,933	349,628
Equity investments at fair value through profit or loss		12,320	3,487
Pledged deposits	14	270,176	122,440
Cash and cash equivalents	14	713,074	765,904
		<hr/>	<hr/>
Total current assets		3,774,201	3,232,980



CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

30 June 2007

		As at 30 June 2007 Unaudited RMB'000	As at 31 December 2006 Audited RMB'000
	Notes		
CURRENT LIABILITIES			
Trade and bills payables	15	1,404,802	1,279,361
Tax payable		61,574	17,700
Other payables and accruals	16	547,818	495,308
Customer deposits	17	118,986	156,814
Interest-bearing bank borrowings		449,060	441,558
Provisions		36,756	28,066
Total current liabilities		2,618,996	2,418,807
NET CURRENT ASSETS		1,155,205	814,173
TOTAL ASSETS LESS CURRENT LIABILITIES		2,664,678	2,572,415
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		159,000	120,000
Other long term liability		29,080	27,680
Deferred tax liability		23,603	47,850
Provisions		8,836	8,836
Total non-current liabilities		220,519	204,366
NET ASSETS		2,444,159	2,368,049
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		785,000	785,000
Reserves		1,481,809	1,413,031
		2,266,809	2,198,031
Minority interests		177,350	170,018
Total equity		2,444,159	2,368,049

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 June 2007*

	Attributable to equity holders of the parent													Minority interests	Total equity
	Issued share capital	Share premium account	Statutory reserve	Statutory public fund	General surplus reserve	Enterprise Reserve fund	Expansion fund	General statutory reserve	Available-for-sale investments revaluation reserve	Exchange fluctuation reserve	Accumulated losses	Total			
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
	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	
At 1 January 2007	785,000	1,378,840	77,570	—	64,744	2,873	2,356	4,446	97,150	(4,244)	(210,704)	2,198,031	170,018	2,368,049	
Changes in fair value of available-for-sale investments	—	—	—	—	—	—	—	—	13,643	—	—	13,643	—	13,643	
Disposal of available-for-sale investments	—	—	—	—	—	—	—	—	(62,873)	—	—	(62,873)	—	(62,873)	
Exchange realignment	—	—	—	—	—	—	—	—	—	(1,722)	—	(1,722)	—	(1,722)	
Total income and expense recognised directly in equity	—	—	—	—	—	—	—	—	(49,230)	(1,722)	—	(50,952)	—	(50,952)	
Net profit for the period	—	—	—	—	—	—	—	—	—	—	119,730	119,730	10,153	129,883	
Total income and expense for the period	—	—	—	—	—	—	—	—	(49,230)	(1,722)	119,730	68,778	10,153	78,931	
Disposal of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	(150)	(150)	
Dividends paid to minority shareholders	—	—	—	—	—	—	—	—	—	—	—	—	(2,671)	(2,671)	
Transfer from/(to) reserves	—	—	334	—	—	500	—	—	—	—	(834)	—	—	—	
At 30 June 2007	785,000	1,378,840	77,904	—	64,744	3,373	2,356	4,446	47,920	(5,966)	(91,808)	2,266,809	177,350	2,444,159	



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2007

	Attributable to equity holders of the parent													
	Issued share capital	Share premium account	Statutory			Available-					Accumulated losses	Total interests	Minority equity	
			Statutory reserve	public welfare fund	General surplus reserve	Enterprise fund	Expansion fund	General		Exchange fluctuation reserve				
								and investments	for-sale					
Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	
At 1 January 2006	785,000	1,378,840	68,817	64,744	—	2,525	2,153	2,217	—	(1,357)	(272,020)	2,030,919	146,536	2,177,455
Exchange realignment	—	—	—	—	—	—	—	—	—	—	(912)	—	(912)	—
Total income and expense recognised directly in equity	—	—	—	—	—	—	—	—	—	—	(912)	—	(912)	—
Net profit for the period	—	—	—	—	—	—	—	—	—	—	30,519	30,519	1,374	31,893
Total income and expense for the period	—	—	—	—	—	—	—	—	—	—	(912)	30,519	29,607	30,981
Contributions from minority interests	—	—	—	—	—	—	—	—	—	—	—	—	3,417	3,417
Transfer of statutory public fund	—	—	—	(64,744)	64,744	—	—	—	—	—	—	—	—	—
Dividends paid to minority shareholders	—	—	—	—	—	—	—	—	—	—	—	—	(3,763)	(3,763)
Transfer from/(to) reserves	—	—	337	—	—	145	—	—	—	—	(482)	—	—	—
At 30 June 2006	785,000	1,378,840	69,154	—	64,744	2,670	2,153	2,217	—	(2,269)	(241,983)	2,060,526	147,564	2,208,090

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June 2007*

	For the six months ended 30 June	
	RMB'000	RMB'000
	2007	2006
	Unaudited	Unaudited
	RMB'000	RMB'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	(1,622)	69,478
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(136,228)	(154,161)
NET CASH INFLOW FROM FINANCING ACTIVITIES	45,830	1,260
NET DECREASE IN CASH AND CASH EQUIVALENTS	(92,020)	(83,423)
Cash and cash equivalents at beginning of period	708,030	435,067
Effect of foreign exchange rates, net	(1,722)	(912)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	614,288	350,732
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	600,214	335,735
Non-pledged time deposits with original maturity of less than three months when acquired	14,074	14,997
	614,288	350,732



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2007

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. They have been prepared under the historical cost convention, except for certain equity investments, which have been measured at fair value. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2006, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which also included HKASs and Interpretations), that affect the Group and are adopted for the first time for the current period’s financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosure
HK(IFRIC) — Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
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

The revised HKAS 1 affects the disclosures of qualitative information about the Group’s objectives, 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.

The HKFRS 7 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 and also incorporates major disclosure requirements of HKAS 32.

The HK(IFRIC)-Int 7 addresses requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and requires an entity to restate its financial statements in accordance with HKAS 29.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (*Continued*)

30 June 2007

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (*Continued*)

The HK(IFRIC)-Int 8 addresses the application of HKFRS 2 to particular transactions in which the entity cannot identify specifically some or all of the goods or services received.

The HK(IFRIC)-Int 9 addresses the application of HKAS 39 that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract, and prohibits subsequent reassessment throughout the life of the contract except for exceptional circumstances.

The HK(IFRIC)-Int 10 addresses the interaction between the requirements of HKAS 34 and the recognition of impairment losses on goodwill in HKAS 36 and certain financial assets in HKAS 39 and that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

There was no material impact on the basis of preparation of the unaudited condensed consolidated balance sheet and condensed income statement arising from the above-mentioned accounting standards.

Impact of issued but not yet effective HKFRSs and HKASs

The Group has not applied the following new and revised HKFRSs and HKASs, which have been issued but not yet effective, in these interim financial statements:

- | | |
|----------------------|---|
| • HKFRS 8 | Operating Segments |
| • HKAS 23 (Revised) | Borrowing Costs |
| • HK(IFRIC) — Int 11 | HKFRS 2 Group and Treasury Share Transactions |
| • HK(IFRIC) — Int 12 | Service Concession Arrangements |



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (*Continued*)

30 June 2007

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (*Continued*)

Impact of issued but not yet effective HKFRSs and HKASs (*Continued*)

HKFRS 8 (effective for accounting period beginning on or after 1 January 2009) supersedes HKAS 14, Segment Reporting, under which segments were identified and reported on the basis of a risk and return analysis. Items were reported on the basis of the accounting policies used for external reporting. Under HKFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker or an authorised qualified staff of the entity. Items are reported based on internal reporting.

HKAS 23 (Revised), HK(IFRIC) - Int 11 and HK(IFRIC) - Int 12 shall be applied for annual periods beginning on or after 1 January 2009, 1 March 2007 and 1 January 2008 respectively.

The Group is in 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 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. 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.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (*Continued*)

30 June 2007

2. SEGMENT INFORMATION (*Continued*)

The Group's operating businesses 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;
- (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.



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

30 June 2007

2. SEGMENT INFORMATION (Continued)

The following table presents revenue and results for the Group's primary segments:

	Agricultural machinery		Construction machinery		Financial operations		Diesel engines and fuel jets		Others		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
For the six months ended 30 June														
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	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	2,435,904	2,429,335	821,275	646,973	—	—	338,523	—	—	43	—	—	3,595,702	3,076,351
Intersegment revenue	196,090	187,534	10,198	10,021	8,765	7,560	170,030	—	—	(385,083)	(205,115)	—	—	
Other income and gains	—	—	—	—	12,398	16,557	—	—	—	—	—	—	12,398	16,557
Total	2,631,994	2,616,869	831,473	656,994	21,163	24,117	508,553	—	—	43	(385,083)	(205,115)	3,608,100	3,092,908
Segment results	84,352	71,973	(11,838)	(19,417)	14,282	11,664	48,546	—	(141)	(1,640)	—	—	135,203	62,580
Interest, dividend and investment income													82,835	2,971
Gain on disposal of a subsidiary													90	—
Unallocated expenses													(18,516)	—
Provision for other receivable													(781)	(10,000)
Finance costs													(14,979)	(4,941)
Share of profits and losses of associates													(3,150)	5,393
Profit before tax													180,702	56,003
Tax													(50,819)	(24,110)
Profit for the period													129,883	31,893

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (*Continued*)

30 June 2007

3. 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:

	For the six months ended 30 June	
	2007 Unaudited RMB'000	2006 Unaudited RMB'000
Revenue		
Sales of goods	3,595,702	3,076,351
Other income		
Bank interest income	1,076	1,969
Interest income from financial operations	11,468	15,314
Profit from sundry sales	15,904	11,984
Rental income	2,445	1,941
Dividend income from available-for-sale investments	70	465
Others	15,866	14,071
	46,829	45,744



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

30 June 2007

3. REVENUE, OTHER INCOME AND GAINS (Continued)

	For the six months ended 30 June	
	2007 Unaudited RMB'000	2006 Unaudited RMB'000
Gains		
Gain on disposal of available-for-sale investments	73,780	—
Gain on disposal of listed equity investments at fair value through profit or loss, net	5,730	442
Fair value gain on listed equity investments at fair value through profit or loss, net	2,179	95
Gain on disposal of a subsidiary	90	—
	<u>81,779</u>	<u>537</u>
	<u>128,608</u>	<u>46,281</u>

4. FINANCE COSTS

	For the six months ended 30 June	
	2007 Unaudited RMB'000	2006 Unaudited RMB'000
Interest on bank loans	<u>14,979</u>	<u>4,941</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (*Continued*)

30 June 2007

5. PROFIT BEFORE TAX

Profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2007 Unaudited RMB'000	2006 Unaudited RMB'000
Depreciation	54,549	44,177
Amortisation of prepaid land premiums	366	254
Reversal of provision against obsolete inventories, net	(4,022)	(11,447)
Provision for impairment of trade receivables, net	17,469	6,736
Net charge for impairment losses and allowances for loans receivable	1,676	5,926
Net charge/(reversal) for impairment losses and allowances for bills discounted receivable	(1,345)	141
Provision for other receivable	781	10,000
Interest expense from financial operations	1,094	1,101
Loss on disposal of items of property, plant and equipment	2,227	1,343
Bank interest income	(1,076)	(1,969)
Interest income from financial operations	(11,468)	(15,314)
Dividend income from available-for-sale investments	(70)	(465)
Gain on disposal of available-for-sale investments	(73,780)	—
Gain on disposal of listed equity investments at fair value through profit or loss, net	(5,730)	(442)
Fair value gain on listed equity investments at fair value through profit or loss, net	(2,179)	(95)
Gain on disposal of a subsidiary	(90)	—



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

30 June 2007

6. TAX

	For the six months ended 30 June	
	2007 Unaudited RMB'000	2006 Unaudited RMB'000
Group:		
Current — PRC corporate income tax	62,233	8,971
Deferred tax	(11,414)	15,139
Total tax charge for the period	<u>50,819</u>	<u>24,110</u>

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the two periods ended 30 June 2007 and 2006.

The PRC corporate income tax for the Company and its subsidiaries is calculated at rates ranging from 10% to 33% (six months ended 30 June 2006: 10% to 33%) on their estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof.

Profits tax of the subsidiary operating outside the 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 overseas assessable profits for the period (six months ended 30 June 2006: Nil).

The share of tax credit attributable to associates for the period amounting to approximately RMB252,000 (the share of tax charge for six months ended 30 June 2006 was RMB3,021,000) is included in "Share of profits and losses of associates" on the face of the condensed consolidated income statement.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (*Continued*)

30 June 2007

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share for the six months ended 30 June 2007 is based on the net profit for the period attributable to equity holders of the parent of approximately RMB119,730,000 (six months ended 30 June 2006: net profit of RMB30,519,000), and the weighted average of 785,000,000 (six months ended 30 June 2006: 785,000,000) ordinary shares in issue during the period.

Diluted earnings per share amounts for both periods ended 30 June 2007 and 2006 have not been disclosed as no diluting events existed during both periods.

8. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

During the six months ended 30 June 2007, the Group acquired construction in progress and items of property, plant and equipment in an aggregate amount of approximately RMB69.1 million (six months ended 30 June 2006: RMB80.8 million) and disposed of items of property, plant and equipment with an aggregate net book value of approximately RMB19.5 million (six months ended 30 June 2006: RMB3.7 million) and resulted in a net loss on disposal of approximately RMB2.2 million (six months ended 30 June 2006: RMB1.3 million). No impairment was made on items of property, plant and equipment during the period.

At 30 June 2007, certain of the Group's buildings and machinery with an aggregate net carrying value of approximately RMB82,534,000 (31 December 2006: RMB91,009,000) were pledged to secure certain short term bank loans granted to the Group.



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

30 June 2007

9. PREPAID LAND PREMIUMS

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

At 30 June 2007, certain of the Group's prepaid land premiums with an aggregate net carrying value of approximately RMB8,200,000 (31 December 2006: RMB8,304,000) were pledged to secure bank loans granted to the Group.

10. LOANS RECEIVABLE

	Notes	As at 30 June 2007			As at 31 December 2006		
		Impairment			Impairment		
		Gross Unaudited	allowances Unaudited	Net Unaudited	Gross Audited	allowances Audited	Net Audited
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loans to the Holding	(a)	248,800	2,488	246,312	252,800	2,528	250,272
Loans to associates	(b)	10,344	2,979	7,365	26,651	533	26,118
Loans to related companies	(c)	52,430	2,572	49,858	32,760	2,964	29,796
Loans to customers	(d)	13,067	2,111	10,956	17,781	2,448	15,333
		324,641	10,150	314,491	329,992	8,473	321,519
Portion classified as current assets		(322,854)	(10,132)	(312,722)	(181,811)	(6,991)	(174,820)
Long term portion		1,787	18	1,769	148,181	1,482	146,699

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (*Continued*)

30 June 2007

10. LOANS RECEIVABLE (*Continued*)

Notes:

- (a) *The loan to the holding company, China Yituo Group Corporation Limited (“the Holding”), is granted by China First Tractor Group Finance Company Limited (“FTGF”), a subsidiary, and is unsecured and bear interest at rates ranging from 6.39% to 6.75% (31 December 2006: 6.3%) per annum and repayable within one year (31 December 2006: one to three years).*
- (b) *The loans to associates are granted by FTGF. These loans are unsecured and bear interest at rates ranging from 6.73% to 8.24% (31 December 2006: 6.14% to 7.34%) per annum and repayable within one year.*
- (c) *The loans to related companies represent the loans granted by FTGF to the companies which the Holding has significant influence therein. These loans are unsecured, interest-bearing at rates ranging from 5.85% to 8.54% (31 December 2006: 5.58% to 7.98%) per annum and repayable within one year.*
- (d) *The loans to customers represent the loans granted to the specific customers as permitted by the People’s Bank of China (the “PBOC”).*

The maturity profile of the Group’s loans receivable at the balance sheet date is analysed by the remaining periods to their contractual maturity dates as follows:

	As at 30 June 2007 Unaudited RMB’000	As at 31 December 2006 Audited RMB’000
--	---	---

Repayable:

Within three months	133,074	28,360
Within one year but over three months	189,780	153,451
Within five years but over one year	23	146,057
Over five years	1,764	2,124
	324,641	329,992



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

30 June 2007

11. 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.

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

	As at 30 June 2007 Unaudited RMB'000	As at 31 December 2006 Audited RMB'000
Within 90 days	868,200	459,454
91 days to 180 days	207,838	192,322
181 days to 365 days	68,346	65,324
1 to 2 years	21,356	22,581
Over 2 years	6,529	5,093
	1,172,269	744,774

Included in the trade and bills receivables of the Group as at 30 June 2007 are trade receivables (net of provision) from the associates of approximately RMB7,721,000 (31 December 2006: RMB14,043,000).

Included in the trade and bills receivables of the Group as at 30 June 2007 was trade receivable (net of provision) from the Holding of approximately RMB5,860,000 (31 December 2006: RMB18,826,000).

As at 30 June 2007, certain of the Group's bills receivable of approximately RMB23,743,000 (31 December 2006: RMB75,282,000) were pledged for the issuance of bills payable.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (*Continued*)

30 June 2007

12. BILLS DISCOUNTED RECEIVABLE

The bills discounted receivable arose from the Group's financial operation. Included in the bills discounted receivable (net of impairment allowance) of the Group are approximately RMB56,331,000 (31 December 2006: RMB192,030,000) related to the Holding; approximately RMB10,593,000 (31 December 2006: Nil) related to an associate; and approximately RMB5,029,000 (31 December 2006: Nil) related to related companies.

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

	As at 30 June 2007 Unaudited RMB'000	As at 31 December 2006 Audited RMB'000
Maturing:		
Within three months	45,230	120,619
Within six months but over three months	42,000	101,160
	87,230	221,779
Less: Impairment allowance for bills discounted receivable	(872)	(2,218)
	86,358	219,561



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (*Continued*)

30 June 2007

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

- (a) Included in other receivables of the Group is an amount of RMB15 million (31 December 2006: RMB15 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 judgment 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 installments over 2 years commencing from 15 January 2006. The Company received the first settlement of RMB13.5 million in January 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. As at 30 June 2006, the total impairment allowance made amounted to RMB14.22 million, which was brought forward from 31 December 2006. No further provision has been made during the period as the directors are of the view that the Company should have valid legal claim on the outstanding balance and is able to recover such balance subsequent to the expiry of the court order.
- (b) Included in other receivables of the Group are approximately RMB107,940,000 (31 December 2006: RMB110,304,000) amounts due from the Holding and approximately RMB2,621,000 amounts due from the associates as at 31 December 2006. Such balances are unsecured, interest-free and have no fixed terms of repayment.
- (c) Included in other receivables of the Group are amounts due from minority shareholders of subsidiaries of the Group of approximately RMB26,739,000 (31 December 2006: RMB24,559,000). Such balances are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (*Continued*)

30 June 2007

14. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 30 June 2007 Unaudited RMB'000	As at 31 December 2006 Audited RMB'000
Cash and bank balances — <i>Note (a)</i>	600,214	681,382
Mandatory reserve deposits in the PBOC — <i>Note (b)</i>	38,786	44,874
Time deposits	344,250	162,088
	983,250	888,344
Less: Pledged time deposits	(270,176)	(122,440)
	713,074	765,904

Notes:

- (a) *The balance included FTGF's placements with the PBOC and other banks of approximately RMB19,074,000 (31 December 2006: RMB118,933,000) and RMB163,415,909 (31 December 2006: RMB129,514,000), respectively.*
- (b) *The balance represents mandatory reserve deposits placed in the PBOC. In accordance with the regulations of the PBOC, such balance should be no less than a specific percentage of the amounts of the customer deposits placed with FTGF. Such mandatory reserve deposits are not available for use in the Group's day-to-day operations.*



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

30 June 2007

14. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (Continued)

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

	As at 30 June 2007 Unaudited RMB'000	As at 31 December 2006 Audited RMB'000
Maturing:		
Within three months	284,250	149,088
Within one year but over three months	60,000	13,000
	<u>344,250</u>	<u>162,088</u>

15. TRADE AND BILLS PAYABLES

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

	As at 30 June 2007 Unaudited RMB'000	As at 31 December 2006 Audited RMB'000
Within 90 days	976,732	853,712
91 days to 180 days	253,328	258,328
181 days to 365 days	96,023	84,578
1 to 2 years	37,275	39,863
Over 2 years	41,444	42,880
	<u>1,404,802</u>	<u>1,279,361</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (*Continued*)

30 June 2007

15. TRADE AND BILLS PAYABLES (*Continued*)

The Group's bills payables amounting to approximately RMB353,489,000 (31 December 2006: RMB241,381,000) are secured by the pledge of certain of the Group's deposits amounting to approximately RMB259,709,000 (31 December 2006: RMB105,270,000).

Included in the trade and bills payables of the Group are trade payables to the Holding and the associates of approximately RMB15,846,000 (31 December 2006: RMB7,266,000) and RMB869,000 (31 December 2006: Nil), respectively.

16. OTHER PAYABLES AND ACCRUALS

- (a) Included in other payables and accruals of the Group are amounts due to the Holding and minority shareholders of subsidiaries of the Group of approximately RMB121,061,000 (31 December 2006: RMB108,448,000) and RMB13,480,000 (31 December 2006: RMB12,891,000), respectively. Such balances are unsecured, interest-free and have no fixed terms of repayment.
- (b) Included in other payables and accruals of the Group is receipt in advance from an associate of approximately RMB490,000 as at 31 December 2006.



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (*Continued*)

30 June 2007

17. CUSTOMER DEPOSITS

	As at 30 June 2007 Unaudited RMB'000	As at 31 December 2006 Audited RMB'000
Deposits from the Holding	55,293	85,483
Deposits from associates	2,848	1,659
Deposits from related companies	42,013	52,775
Deposits from customers	18,832	16,897
	<u>118,986</u>	<u>156,814</u>

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

	As at 30 June 2007 Unaudited RMB'000	As at 31 December 2006 Audited RMB'000
Repayable:		
On demand	114,839	142,230
Within three months	—	141
Within one year but over three months	4,147	14,443
	<u>118,986</u>	<u>156,814</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (*Continued*)

30 June 2007

18. DISPOSAL OF A SUBSIDIARY

	As at 30 June 2007 Unaudited Net Book Value RMB'000
Net assets disposed of:	
Property, plant and equipment	2,733
Cash and bank balances	6
Prepayments, deposits and other receivables	10
Interest-bearing bank borrowings	(2,000)
Trade and bills payables	(65)
Other payables and accruals	(184)
Minority interests	(150)
	<hr/>
	350
Gain on disposal of a subsidiary	90
	<hr/>
	440
	<hr/> <hr/>
Satisfied by:	
Cash	440
	<hr/> <hr/>



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (*Continued*)

30 June 2007

18. DISPOSAL OF A SUBSIDIARY (*Continued*)

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

	As at 30 June 2007 Unaudited RMB'000
Cash consideration	440
Cash and bank balances disposed of	(6)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiary	<u>434</u>

19. CONTINGENT LIABILITIES

- (a) As at 30 June 2007, FTGF, a subsidiary, had given guarantees to the extent of RMB100 million (31 December 2006: RMB100 million) to certain financial institutions for securing the loans granted to the Holding. As at 30 June 2007, the aforesaid loans of the Holding were drawdown to RMB100 million (31 December 2006: RMB100 million).
- (b) As at 30 June 2007, Zhengjiang Huachen Huatong Road Machinery Company Limited ("ZHHRM"), a subsidiary of the Group, had provided a guarantee to the extent of RMB20 million (31 December 2006: RMB20 million) to a bank for securing the loan granted to a customer of the Group.

Save as disclosed above, the Group did not have any other significant contingent liabilities.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (*Continued*)

30 June 2007

20. CAPITAL COMMITMENTS

The Group had the following capital commitments at the balance sheet date:

	As at 30 June 2007 Unaudited RMB'000	As at 31 December 2006 Audited RMB'000
Contracted, but not provided for:		
Purchase of plant and machinery	100,303	103,720
Investment in an associate	12,800	—
Investment in a subsidiary	25,000	—
	138,103	103,720
Authorised, but not contracted for:		
Purchase of plant and machinery	89,055	93,549
Investment in an associate	—	16,000
	89,055	109,549
	227,158	213,269



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

30 June 2007

21. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these condensed consolidated interim financial statements, the Group had the following material transactions with related parties during the period.

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

	For the six months ended 30 June	
	2007 Unaudited RMB'000	2006 Unaudited RMB'000
Sales of raw materials, finished goods and components	305,452	261,012
Purchases of raw materials and components	445,960	351,283
Purchases of utilities	55,807	77,559
Fees paid for welfare and support services	10,746	12,534
Purchases of transportation services	11,456	24,969
Research and development expenses paid	29,098	18,548
Fees paid for the use of land	2,500	2,500
Fees paid for the use of trademark	8,475	6,204
Rentals paid for buildings	832	800
Rentals income from plant and machinery	—	1,855
Sales of plant and machinery	9,718	198
Purchases of plant and machinery	4,516	5,817
Interest income, inclusive of discounted bill charges	10,570	12,734
Interest paid for customer deposits	954	283
Service charge for guarantees	—	1,175

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (*Continued*)

30 June 2007

21. RELATED PARTY TRANSACTIONS (*Continued*)

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

The transactions disclosed above included the significant transactions carried out between the Group and Yituo (Luoyang) Diesel Company (“YLDC”) (which was a then subsidiary of the Holding) and Yituo (Luoyang) Engines Machinery Company (“**YEMC**”) (in which YLDC holds a 50% interest) for the prior period ended 30 June 2006. Thereafter, YLDC and YEMC became the subsidiaries of the Group in August 2006 and such transactions were no longer disclosed in the financial periods subsequent to August 2006. In addition, the transactions disclosed above also included the transactions between the Group and an associate, Yituo (Luoyang) Casting & Forging Company Limited (“**YLFC**”) (in which the Holding holds a 50% equity interest) for both periods ended 30 June 2007 and 2006.

Particulars of the significant transactions carried out between the Group and Luoyang First Motors Company Limited, an associate, during the period are summarised as follows:

	For the six months ended 30 June	
	As at 2007 Unaudited RMB'000	As at 2006 Unaudited RMB'000
Sales of raw materials and components	—	3,279
Interest income	497	609
Interest paid for customer deposits	6	55



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (*Continued*)

30 June 2007

21. RELATED PARTY TRANSACTIONS (*Continued*)

(b) Other transactions with related parties:

(i) Designated deposits and designated loans

As at 30 June 2007, the Holding placed a designated deposit of approximately RMB15.9 million (31 December 2006: RMB10 million) in FTGF for lending to YLCF.

As at 30 June 2007, the Holding placed a designated deposits of approximately RMB31.9 million (31 December 2006: RMB1.9 million) in FTGF for lending to associates of Holding.

As at 30 June 2007, Yituo International Commerce Company Limited, a subsidiary of the Holding, placed a designated deposit of RMB2 million (31 December 2006: 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 condensed consolidated interim financial statements.

(ii) Guarantees provided by the Group to related parties

As at 30 June 2007, FTGF provided guarantees to the extent of RMB100 million (31 December 2006: RMB100 million) to certain financial institutions for securing loans granted to the Holding.

(iii) Guarantees provided by related parties to the Group

As at 30 June 2007, the Holding provided a guarantee to the extent of RMB267 million (31 December 2006: RMB124 million) to a bank for securing the banking facilities granted to the Company. As at 30 June 2007, the aforesaid banking facilities were utilised to the extent of RMB234 million. (31 December 2006: RMB124 million).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (*Continued*)

30 June 2007

21. 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 deposits balances with the Holding as at the balance sheet date are disclosed in notes 13, 16, 10 and 17 to the condensed consolidated interim financial statements.
 - (ii) Details of the Group's loans to and deposits received from its associates as at the balance sheet date are included in notes 10 and 17 to the condensed consolidated interim financial statements.
 - (iii) Details of the Group's trade balances with its related parties as at the balance sheet date are disclosed in notes 11 and 15 to the condensed consolidated interim 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 13 and 16 to the condensed consolidated interim financial statements.
- (d) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2007	2006
	Unaudited	Unaudited
	RMB'000	RMB'000
Short term employee benefits	575	494
Post-employment benefits	121	114
Total compensation paid/payable to key management personnel	696	608



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (*Continued*)

30 June 2007

22. POST BALANCE SHEET EVENT

There is no significant post balance sheet event subsequent to the period ended 30 June 2007.

23. APPROVAL OF THE INTERIM FINANCIAL REPORT

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 24 August 2007.

BUSINESS REVIEW

During the Reporting Period, the Group achieved a better result in the turnover and operating results by a timely adjustment in its product mix and sale and marketing strategies and employment of measures such as enhanced cost control and increased investment in research and development and expansion of product export.

For the six months ended 30 June 2007, the Group recorded a turnover of approximately RMB3,595,702,000, representing an increase of approximately RMB519,351,000 or 16.88% as compared with the same period last year. Profit attributable to equity holders of the parent company amounted to approximately RMB119,730,000, representing an increase of 292% as compared with the same period last year. Earnings per share was approximately RMB15.25 cents. The consolidated gross profit margin of the Group increased by 2.5% as compared with the same period last year.

The details of the results of respective business segments as at 30 June 2007 are set out in note 2 of the unaudited condensed consolidated interim financial statements.

BUSINESS REVIEW *(Continued)*

Agricultural machinery business

Recently, driven by a series of preferential agricultural policies such as acceleration of construction of new farms by the State and the promulgation and implementation of subsidy for purchasing of agricultural machinery, the agricultural machinery market in the PRC has been prospering and economy of the industry has been running smoothly recently. Production and sales volume in the industry achieved impressive growth and the agricultural machinery market has experienced five consecutive years of rapid growth. However, agricultural machinery business exhibited an adjustment trend coupled with a slowdown in growth since 2007. The structure of product demand for tractors had experienced relatively substantial changes with ups and downs. Production volume of tractors with 70 to 80 horsepower decreased by 40.41% as compared with the corresponding period last year, while the production volume of tractors with 60 to 70 horsepower as well as those with 80 to 100 horsepower increased by about 40%. Regarding the agricultural machinery market, April and May of each year are periods with robust demand for large and medium tractors and wheat harvesters. However, under the influence of factors such as falling demand in agricultural machinery market and farmers' attitude to await the availability of subsidy for purchase of agricultural machinery, the production and sales volume of agricultural machinery recorded a significant drop as compared with the same period last year, resulting in a slower growth in the whole agricultural machinery market. During the Reporting Period, sales volume of large and medium tractors recorded a year-on-year increase of 6.57%, with the growth rate lowered by 60%, while the sales of the harvesters market decreased by 60% and sales of small tractor industry recorded a year-on-year decrease of approximately 0.85%.



BUSINESS REVIEW (CONTINUED)

Agricultural machinery business (Continued)

In response to the slowing down of demand in agricultural machinery market and the changes in demand structure in tractors market, the Group had made the best endeavors to implement measures such as increasing its investment in research and development, refining product quality and expanding international market. The Group also timely adjusted the product structure and its sales and marketing strategy and enhanced the production and sales of high value-added products such as large wheeled tractors and 4WD tractors with more than 90 horsepower, results of which were impressive. The sales volume of large wheeled tractors with more than 90 horsepower rose by 29.81% as compared with the corresponding period last year, and the sales of 4WD tractors rose by 14.27% as compared with the corresponding period last year, which had minimized the impact of the slowing expansion in the agricultural machinery market on the agricultural machinery products of the Group to a maximum extent. Due to a lack of full understanding of the market, under a 40% growth in the industry of large wheeled tractors with 60 to 70 horsepower, new products with such range of horse power promoted by the Group cannot be sold in a effective and systematic manner. At the same time, the sale of large wheeled tractors and harvesters with 70 to 80 horsepower suffered a downturn that was more severe than the downturn in the industry. During the Reporting Period, the Group sold 70,814 units (sets) of various agricultural machinery products, representing a year-on-year decrease of 6.52%, of which, the sales volume of large and medium tractors dropped by 12.83% over the corresponding period last year while sales of small tractors and harvesters recorded a year-on-year increase of 4.03% and a year-on-year decrease of 66.73% respectively.

During the Reporting Period, through adjustment in the product mix, adoption of specifically targeted sales strategies, increase in sales volume of high value-added products and expansion of export volume, the Group has recorded a sale of RMB2,435,904,000, increased by 0.27% as compared with the same period last year, despite a decrease in sales volume of the Group's agricultural machinery business. In face of unfavorable factors such as rising price of raw materials, the Group, with more efforts on cost control and commencement of valuable projects, achieved an increase of 17.2% in the operating results of agricultural machinery business as compared with the corresponding period last year. The operating results of agricultural machinery business achieved a year-on-year increase of 50.54% when further taking into account of the addition of approximately RMB24,000,000 of new R&D expenses.

BUSINESS REVIEW (CONTINUED)

Construction machinery business

In the first half of 2007, propelled by investment growth in fixed assets and export growth, the construction machinery business continued to maintain a favourable momentum. The sales volumes of major products in this business posted increased as compared over the same period last year.

Under the fast development of construction machinery business, in response to the existing problems in the Group's construction machinery business, the Group enhanced the internal control and product research and development, increased marketing competence and the competitiveness of the products. Products such as small loaders, bulldozers below 120 horsepower as well as road pavers still enjoy a privileged pressure in the industry. While forklifts shown remarkable momentum, development of new products had been successful to a certain extent. Single Drum Vibratory Road Rollers, the new invention of Yituo (Luoyang) Building Machinery Company Limited licensed with various patents, had been well received by the market based on its outstanding functions and price, with sales revenue representing more than 10% of its total revenue in the first half year. However, loaders and road rollers had yet to experience a successful breakthrough. In particular, sales volume of large wheel loaders suffered a relatively substantial decrease on a year-on-year basis. During the Reporting Period, the sales of various types of construction machinery products by the Group totalled 5,355 sets, basically maintaining the same level as that of the same period last year, in which the sales volumes of bulldozers, small loaders, road pavers and forklifts grew by 12.11%, 21.62%, 22.89% and 45% respectively over the same period last year. However, the sales volumes of road rollers, large loaders and excavators dropped by 4.48%, 43.55% and 19.9% respectively as compared with the same period last year.

Through implementing the sales-based and order-oriented production mode to reduce the inventory and capital occupation, the Group has improved the quality of economic operation of the construction machinery business and the loss further narrowed. However, the loss situation has not yet been changed. During the Reporting Period, the construction machinery business recorded a turnover of RMB821,275,000, up by 26.94% over the same period last year, representing 22.84% of the Group's turnover, a reduction of loss by RMB7,579,000 over the same period last year.



BUSINESS REVIEW (Continued)

Engine machinery business

In the first half of 2007, with a slow down in the growth of the agricultural machinery business, the Group's newly integrated engine machinery business continued to bolster the advantages of large wheeled tractor and wheat harvesting machine, leverage on brand advantages, focus on developing ancillary machines such as corn harvesting machine and high power paddy rice harvesting machine, and actively develop ancillary market in areas of construction machinery and automobile. During the Reporting Period, a total of 40,433 diesel engines in various types were sold, 27,449 sets of which were sold to external purchasers with a turnover amounting to RMB338,523,000, representing 9.41% of the Group's turnover. Operating Result of RMB 48,547,000 was recorded.

Financial business

During the Reporting Period, the Group had maintained a stable development in its financial business and strived to seek and expand its businesses such as buyer credit and financial lease, which had been successfully accomplished in a preliminary stage. Operating results increased by RMB2,618,000 as compared with the corresponding period last year.

During the Reporting Period, the aggregate operating results of businesses of the Group increased by RMB72,623,000 as compared with the corresponding period last year, representing an increase of 116.05%.

New product development and research

During the Reporting Period, in view of its products mix adjustment and the market changes, the Group invested additional RMB42,000,000 in research and development of new products. Progresses were achieved with the completion of 27 new products' development, and mass production capacity has been formed.

BUSINESS REVIEW (Continued)

International trade

With the improvement in the environment of machinery export trade and various regulatory systems, technological development in large wheeled tractors of the Company, improved product performance and quality, and satisfaction of the standard authentication of E-mark, product export of the Company experienced strong momentum. During the Reporting Period, the Group actively developed the international market. The Group exported a total of 947 sets of various agricultural machineries, representing an increase of 30% as compared with the corresponding period last year. Among which large and medium tractors recorded an export of 808 sets, representing an increase of 119.56% as compared with the corresponding period last year. Export of each construction machinery such as bulldozers, road rollers and wheel loaders totaled 404 sets, representing an increase by approximately 100% as compared with the corresponding period. The export of each type of products amounted to US\$27.27 million, representing an increase of 105.9% as compared with the corresponding period last year.

Assets reorganization and disposal

In order to optimize principal business and elevate earnings, the Company has always been exploring opportunities to reorganize and dispose part of its assets and businesses. As Guizhou Zhenning Biological Industrial Co., Ltd (“**Zhenning Company**”) recorded continuous loss, coupled with a relatively substantial differences between its principal business and that of the Group as well as its difficulties in shifting its focus of business, the Company sold all its equity interest in that company and retreated from the business in the beginning of the year.

During the Reporting Period, in view of the capital market situation, the Company sold part of its legal person shares of Bank of Communications Co., Ltd. (“**Bank of Communications**”) on a timely basis, thereby attaining an investment returns amounting to RMB73,780,000, which had effectively supplemented the working capitals of the Group.



LIQUIDITY AND FINANCIAL RESOURCES

Table of the Group's major current assets

	30 June 2007 <i>RMB'000</i>	31 December 2006 <i>RMB'000</i>	Change (+ / -)
Cash and cash equivalents	713,074	765,904	-6.89%
Pledged deposits	270,176	122,440	120.66%
Trade and bills receivables	1,172,269	744,774	57.40%
Inventories	780,349	852,366	-8.45%

As at 30 June 2007, the Group's short-term bank loans amounted to RMB449,060,000, an increase of 1.70% as compared with the end of 2006. The Group's long-term bank loan amounted to RMB159,000,000, an increase of 32.5% as compared with the year end of 2006.

Financial Ratio Indicators

Items	Basis of calculation	30 June 2007	31 December 2006
Gearing ratio	Total liabilities/ Total assets x 100%	53.74%	52.56%
Current ratio	Current assets/ Current liabilities	1.44	1.34
Quick ratio	(Current assets — inventories) / Current liabilities	1.14	0.98
Debt equity ratio	Total liabilities/shareholders' equity x 100%	125.26%	119.34%

Note: Shareholders' equity does not include minority shareholders' interests.

BUSINESS PROSPECTS

In the second half of 2007, the macro-environment remains favourable to the Group's business. Despite challenges such as changes in market demand and more fierce competition in the industry, the Company still feels confident and capable of grasping opportunities and achieving better operating results in the second half year.

Agricultural machinery business

Although the agricultural machinery market fell back in the first half year, a rally in the next half year is expected. In particular, the output and sales volume of large and medium wheeled tractors and rice harvesters are expected to return to the normal level or higher, while the output and sales volume of such popular products as corn harvesters are expected to surge further during this year. On specific products, wheeled tractors with 25 to 30 horsepower exhibited substantial growth in market demand and the development trend is exciting. The demands of large and medium wheeled tractors with 50 horsepower were increasing in north China. In addition, as peasants are more prudent when purchasing agricultural machinery, the demands for 70 to 80 horsepower large tractors posted an increase, while the sales of tractors over 80 horsepower showed a slow growth. Those 120 horsepower large wheeled tractors were well demanded in farms of Northeast, Xinjiang, and Internal Mongolia. An annual growth of approximately 15% is expected in total output value and total sales amount of the Group's agricultural machinery business for this year. As such, the operation strategy for the Group's agricultural machinery business for the second half of 2007 is as follows:

By focusing on changes in demand from domestic and international market and capitalising on its advantages in technology and R&D, the Group will continue to enhance research and development of new products, develop products with high quality and high added value and lay emphasis on technical contents and functions of a product so as to satisfy the needs of customers and consolidate the Group's strengths in the field of large wheeled tractors. For medium wheeled tractors products, the Group will adopt the strategy of diversification in products for competition by optimizing products and highlighting the brand advantage to increase sales and market share. Since the small wheeled tractors has passed the 3C accreditation for PRC agricultural machinery industry, the Company will take this opportunity to improve its brand awareness of "Dongfanghong" by subdividing the market to satisfy the purchasing demand for tractors from the farmers. As for the harvesting machinery business, the Company will focus on the market exploring in the Northeast region.



BUSINESS PROSPECTS (Continued)

Construction machinery business

In the second half of 2007, nationwide construction projects such as construction of new highways and small rural towns will help the construction machinery business to maintain a steady growth. The Group will continue to consolidate its internal and external resources, strengthen and elevate the competitiveness of road surface machinery and small construction machinery with higher profitability. For wheel loaders which had been in unfavourable positions in the market competitions, the Group will resort to professional institutions for consultancies to identify the development direction and strategy thus adopting target-oriented marketing measures. Concerning the compaction machinery business, the Group will attach great importance on the internal resources integration and accelerate the development, cultivation and commercial operation pace for new niche product, and more effective marketing measures will be adopted. For excavator business, the Group will enhance aftersale services management and technological support, accelerate product renovation and with a strategy of diversifying product mix to stretch its foothold from major markets to other market, to expand the international market and to increase its exports.

Engine machinery business

The Group will focus on R&D and increasing the production capability of new engine machinery products, will speed up the R&D and manufacture of diesel engine with high power, low emission and high reliability. While securing and increasing the market shares of agricultural ancillary machinery market and market of major machinery plant, the enterprise's internal advantages resources will be further consolidated and searched and the development of new ancillary such as construction machinery, truck, power generation engines, marine diesel engines and will be further reinforced in order to increase market competitiveness.

International trade and international cooperation

Based on the sound export in the first half year, the Group will continue to promote the construction of international marketing network. Through market segmentation and product positioning, the Group will strive for building scale market to increase market shares in stronghold regions and sales in international market.

The Group will speed up cooperation in respect of technology and funds with renowned global companies, to upgrade technical level of and sharpen competitive edge of its products.

BUSINESS PROSPECTS (Continued)

Whilst adopting the above business strategies, the Group expects to continue the resource integration, aiming at increasing the return on assets and improving operating performance by restructuring its underperformed assets and seeking external cooperation.

The Board believes that, through adopting the above business strategies, the Group will steadily develop in the second half of 2007 and will attain its 2007 operating target.

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

The Group will complete its investment plan of the production lines of large and medium wheeled tractors and high pressure forged steel crankshaft production lines in the second half of 2007, and will invest and construct technological renovation projects such as Phase II capacity expansion of large wheel tractors and heavy power duty diesel machines as well as the agricultural equipment base in Xinjiang.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES

On 25 February 2007, the tenth meeting of the fourth Board of the Company resolved to transfer 70% shares of Zhenning Company to Guizhou Hongyue (Group) Food Factory Company Limited. With reference to the assessed net asset value, the transfer price is RMB440,000.

CURRENCY EXCHANGE RISK

The Group manages its foreign exchange revenue and expenditure in accordance with the relevant laws and regulations of foreign exchange management issued by the State. It has established an internal foreign exchange flows with cash balance usually deposited with financial institutions in the form of deposits. As 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 in foreign currency is mainly from payment of fees of intermediaries abroad. The Group's loans for business activities and technology investment are all in Renminbi and can be repaid by Renminbi. Accordingly, exchange rate fluctuation does not have much impact on the Group's business result.

As at 30 June 2007, there was no pledge of any deposit in foreign currency by the Group.

During the Reporting Period, the Group has no foreign exchange risk and there was no hedge activity made in respect of foreign exchange risk.



CONTINGENT LIABILITIES

As at 30 June 2007, China First Tractor Group Finance Company Limited (“**FTGF**”), acting as the guarantor of YTO Group Corporation Limited (“**YTO Group**”), had provided a guarantee of RMB100 million to a financial institution for securing a loan granted to YTO Group.

As at 30 June 2007, Zhenjiang Huachen Huatong Road Machinery Company Limited (“**ZHHRM**”), a subsidiary of the Group, had provided a guarantee of RMB20 million to a bank for securing a loan granted to an associated company of ZHHRM’s minority shareholders.

PLEDGE OF ASSETS

As at 30 June 2007, the Group’s certain buildings and machinery with a book value of approximately RMB82,534,000 (31 December 2006: RMB91,009,000) were pledged to a bank for securing certain short term bank loans granted to the Group.

In addition, the Group’s deposits of approximately RMB259,709,000 (31 December 2006: RMB105,270,000) and certain land of approximately RMB8,200,000 (31 December 2006: RMB8,304,000) were pledged to a bank for securing certain banking facilities (including issuance of bills payable) granted to the Group.

SHARE CAPITAL, CONVERTIBLE SECURITIES, OPTIONS AND WARRANTS

During the six months ended 30 June 2007, there was no change in the registered or issued share capital of the Company nor did the Company issue any convertible securities, options, warrants or similar rights during the six months ended 30 June 2007.

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 six months ended 30 June 2007.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2007, save as disclosed below, none of the Directors, supervisors (the “**Supervisors**”) or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the “**SFO**”), which would have to be notified to the Company and the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests held or deemed to be held by them under such provision of the SFO), or as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Name	Company / Name of associated corporation	Capacity	Registered capital held (Note 1)	Approximate percentage in the total registered capital of the Company / associated corporation
Yan Linjiao (Director)	YTO (Luoyang) Lutong Construction Machinery Company Limited (“ Lutong Company ”) (Note 2)	Beneficial owner	RMB290,000 (L)	0.5%

Note 1: The letter “L” represents the person’s long position in the registered capital of the associated corporation.

Note 2: Lutong Company is a company with limited liability incorporated in the PRC with a registered capital of RMB58,000,000. Mr Yan Linjiao contributed RMB290,000, representing 0.5% of the total registered capital of Lutong Company.



CHANGE IN SHAREHOLDING AND STRUCTURE OF THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2007, the Company issued a total of 785,000,000 Shares. Its structure of share capital was shown as follows:

Type of Shares	Number of Shares	Percentage (%)
(1) Non-circulating state-owned legal person Shares (the “ Domestic Shares ”)	450,000,000	57.32
(2) Circulating Shares listed in the Stock Exchange (the “ H Shares ”)	335,000,000	42.68
Total share capital	<u>785,000,000</u>	<u>100.00</u>

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, the following shareholders (other than the Director, Supervisor or chief executive of the Company) of the Company have interests and/or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Domestic Shares

Name of shareholder	Nature of interests	Number of Shares (Note 1)	Approximate percentage of the total issued share capital of the Company
YTO Group	Beneficial owner	450,000,000 Shares (L)	57.32%

SUBSTANTIAL SHAREHOLDERS (Continued)**H Shares**

Name of shareholder	Nature of interests	Number of Shares (Note 1)	Approximate percentage of the total issued H Shares of the Company
Morgan Stanley	Investment manager	23,080,000 (L)	6.89%
FMR Corp	Investment manager	20,649,400 (L)	6.16%
Sumitomo Life Insurance Company	Investment manager	17,100,000 (L)	5.10%
Sumitomo Mitsui Asset Management Company, Limited	Investment manager	17,100,000 (L)	5.10%

Note 1: The letter "L" represents the entities' long positions in the Shares of the Company.

Save as disclosed above, so far as is known to the Directors, Supervisors or chief executive of the Company, there is no other person (other than the Director, Supervisor or chief executive of the Company) who, as at 30 June 2007, 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 the published 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 report.



THE COMPANY'S STAFF AND REMUNERATION FOR STAFF

As at 30 June 2007, the Company had a total of 8,582 employees. The total remuneration paid during the Reporting Period amounted to approximately RMB64,647,031. The pay levels of the employees are commensurate with their responsibilities, performance and contribution. The emolument policy of the employees of the Group is set up by the personnel department on the basis of their merit, qualification and competence.

Remuneration of the Company's executive Directors is subject to their positions, performance and contribution and is linked with the operating results of the Group.

In the first half year of 2007, the Company conducted "training as required" in a number of ways. Employees in different levels were trained for 8,349 times so that the quality of employees was improved.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months ended 30 June 2007 were any rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Directors, Supervisors, or their respective spouse or minor children, or were any rights exercised by them; nor was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or Supervisors to acquire such rights in any other body corporate.

AUDIT COMMITTEE

The Company has set up the Audit Committee in accordance with Rule 3.21 of the Listing Rules, which comprises of three independent non-executive Directors.

The Audit Committee has reviewed the accounting principles, standards and practices adopted by the Group and discussed internal controls and financial reporting matters of the Group including a review of the unaudited interim financial statements of the Group for the six months ended 30 June 2007 and the 2007 interim report of the Company.

The Audit Committee agreed with the accounting principles, standards and methods adopted in the preparation of the Group's unaudited interim accounts for the six months ended 30 June 2007.

PLEDGE OF SHARES

On 29 September 2006, YTO Group, the controlling shareholder of the Company, pledged its 50,000,000 Domestic Shares of the Company as security to secure a loan facility of RMB50,000,000 granted by Shanghai Pudong Development Bank Company Limited (“**Pudong Bank**”) Zhengzhou Branch, to YTO (Luoyang) Fuel Jet Company Limited, a non-wholly owned subsidiary of the Company. With regard to this matter, the Company has received Corporate Substantial Shareholder Notices from YTO Group and Pudong Bank and made an announcement. During the Reporting Period, such pledge of shares still exists.

SIGNIFICANT EVENTS

1. On 15 January 2007, the seventh meeting of the Fourth Board of the Company resolved to appoint (as nominated by Mr. Yan Linjiao, General Manager) Mr. Li Youji, Mr. Liu Jiguo, Mr. Li Xibin and Mr. Qu Dawei as Deputy General Managers. Mr. Zhang Youxu and Mr. Yuan Rongqing have resigned as Deputy General Managers of the Company due to work reallocation.
2. On 21 March 2007, the eleventh meeting of the Fourth Board of the Company resolved to transfer 17,000,000 legal person shares held by the Company in Bank of Communications, at a price of RMB6.3 per share, to Zhongyuan Trust Investment Company Limited. The total proceeds amounted to RMB107,100,000. The Company acquired 10,000,000 and 15,000,000 legal person shares of Bank of Communications at RMB1.9 and RMB2 in July 2000 and June 2001 respectively. The Company has held a total of 25,000,000 legal person shares of Bank of Communications with a total investment amount of RMB49,000,000. The Company currently holds 8,000,000 legal person shares of Bank of Communications after completion of the sale.
3. In order to further develop the domestic market in the northwest and international middle Asia market, on 27 June 2007, the sixteenth meeting of the Fourth Board of the Company resolved to establish a wholly owned subsidiary in Xinjiang, YTO (Xinjiang) Dong Fang Hong Machinery Company Limited (“**Xinjiang Company**”), with a registered capital of RMB25,000,000. Its operation scope includes the manufacturing and sales of tractors, parts and components. Xinjiang Company will become a comprehensive base of the Company in the northwest region for the assembly of agricultural machinery products, production, logistics, sales and promotion of product image and training.



CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is of the view that during the Reporting Period, the Company has complied with all code provisions stipulated in the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules, implemented improved governance and disclosure measures, and improved the internal control systems of its own and the subsidiaries. During the Reporting Period, there is no breach of the Listing Rules or any material uncertainty relating to events or conditions that may affect the Company's ability to continue as a going concern.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

For the six months ended 30 June 2007, the Company has adopted a code of conduct for securities transactions by its Directors and Supervisors in accordance with the required standards stipulated in the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all the Directors and Supervisors, the Company confirmed that all the Directors and Supervisors have complied with the required standard set out in the Model Code for Securities Transaction by Directors of Listed Issuers.

MATERIAL LITIGATION

During the Reporting Period, none of the Company, its Directors, Supervisors or chief executives was involved in any material litigation or arbitration.

By order of the Board
Liu Dagong
Chairman

Luoyang, Henan Province, the PRC
24 August 2007