



**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)

东方红



2009

INTERIM REPORT

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 2009 (the “**Reporting Period**”) with the comparative figures for the corresponding period in 2008 (the “**Corresponding Period**”). 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 2009.

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009

	Notes	For the six months ended 30 June	
		2009 Unaudited RMB'000	2008 Unaudited RMB'000
<b>REVENUE</b>	2,3	<b>5,268,952</b>	4,539,359
Cost of sales		<b>(4,532,844)</b>	(4,007,753)
Gross profit		<b>736,108</b>	531,606
Other income and gains	3	<b>42,642</b>	16,567
Selling and distribution costs		<b>(202,096)</b>	(148,020)
Administrative expenses		<b>(233,557)</b>	(192,517)
Other expenses		<b>(87,822)</b>	(57,764)
Finance costs	4	<b>(11,727)</b>	(21,568)
Share of profits and losses of associates		<b>—</b>	(2,111)
<b>PROFIT BEFORE TAX</b>	2,5	<b>243,548</b>	126,193
Tax	6	<b>(55,479)</b>	(38,908)
<b>PROFIT FOR THE PERIOD</b>		<b>188,069</b>	87,285

**CONDENSED CONSOLIDATED INCOME STATEMENT**  
**(CONTINUED)**

For the six months ended 30 June 2009

	Note	For the six months ended 30 June	
		2009	2008
		Unaudited RMB'000	Unaudited RMB'000
Attributable to:			
Equity holders of the parent		168,943	77,943
Minority interests		19,126	9,342
		<u>188,069</u>	<u>87,285</u>
<b>EARNINGS PER SHARE</b>			
<b>ATTRIBUTABLE TO</b>			
<b>ORDINARY EQUITY</b>			
<b>HOLDERS OF THE PARENT</b>	8		
Basic		<u>RMB19.97 cents</u>	<u>RMB9.21 cents</u>

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30 June 2009*

		<b>For the six months ended 30 June</b>	
		<b>2009</b>	2008
	<i>Note</i>	<b>Unaudited RMB'000</b>	Unaudited RMB'000
<b>PROFIT FOR THE PERIOD</b>		<b>188,069</b>	87,285
Exchange difference on translation of foreign operation		<b>3,286</b>	(2,984)
Net loss on available-for-sale investments	9	<b>(27)</b>	(45,072)
Income tax		<b>—</b>	11,268
		<b>(27)</b>	(33,804)
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX</b>		<b>3,259</b>	(36,788)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>		<b>191,328</b>	50,497
Attributable to:			
Equity holders of the parent		<b>172,202</b>	41,155
Minority interests		<b>19,126</b>	9,342
		<b>191,328</b>	50,497

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

30 June 2009

		<b>As at 30 June 2009 Unaudited RMB'000</b>	As at 31 December 2008 Audited RMB'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	<b>1,123,767</b>	1,163,237
Prepaid land premiums	11	<b>79,364</b>	79,158
Goodwill		<b>52,990</b>	52,990
Interests in associates		<b>18,918</b>	18,918
Interest in a jointly-controlled entity	12	<b>36,300</b>	—
Available-for-sale investments		<b>107,122</b>	106,959
Loans receivable	13	<b>211,687</b>	214,123
Deferred tax assets		<b>60,866</b>	49,107
Total non-current assets		<b>1,691,014</b>	1,684,492
<b>CURRENT ASSETS</b>			
Inventories		<b>748,226</b>	842,003
Trade and bills receivables	14	<b>1,612,158</b>	813,872
Loans receivable	13	<b>173,805</b>	209,069
Bills discounted receivable	15	<b>211,925</b>	129,283
Prepayments, deposits and other receivables	16	<b>476,996</b>	410,310
Equity investments at fair value through profit or loss		<b>86,261</b>	4,444
Pledged deposits	17	<b>344,671</b>	366,357
Cash and cash equivalents	17	<b>720,764</b>	758,535
		<b>4,374,806</b>	3,533,873
Assets classified as held for sale		—	317,012
Total current assets		<b>4,374,806</b>	3,850,885

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**(CONTINUED)**

30 June 2009

		<b>As at 30 June 2009 Unaudited RMB'000</b>	<b>As at 31 December 2008 Audited RMB'000</b>
	<i>Notes</i>		
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	18	<b>1,897,782</b>	1,448,998
Other payables and accruals	19	<b>546,855</b>	443,778
Customer deposits	20	<b>264,181</b>	198,217
Interest-bearing bank borrowings		<b>228,500</b>	167,000
Tax payable		<b>59,387</b>	12,913
Provisions		<b>58,423</b>	28,084
		<b>3,055,128</b>	2,298,990
Liabilities directly associated with assets held for sales		<b>—</b>	206,263
Total current liabilities		<b>3,055,128</b>	2,505,253
<b>NET CURRENT ASSETS</b>		<b>1,319,678</b>	1,345,632
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>3,010,692</b>	3,030,124

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**(CONTINUED)**

30 June 2009

	<b>As at</b> <b>30 June</b> <b>2009</b> <b>Unaudited</b> <b>RMB'000</b>	<b>As at</b> <b>31 December</b> <b>2008</b> <b>Audited</b> <b>RMB'000</b>
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing bank borrowings	—	144,000
Deferred income	<b>127,057</b>	103,774
Deferred tax liabilities	<b>4,332</b>	4,332
Provisions	<b>34,849</b>	35,581
Total non-current liabilities	<b>166,238</b>	287,687
Net assets	<b>2,844,454</b>	2,742,437
<b>EQUITY</b>		
<b>Equity attributable to equity holders of the parent</b>		
Issued capital	<b>845,900</b>	845,900
Reserves	<b>1,844,094</b>	1,676,691
Proposed final dividend	—	42,295
	<b>2,689,994</b>	2,564,886
Minority interests	<b>154,460</b>	177,551
Total equity	<b>2,844,454</b>	2,742,437

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

Attributable to equity holders of the parent

	Available-												
	Issued share capital	Share premium account	Statutory reserve	General surplus reserve	Enterprise Reserve fund	Expansion fund	General statutory reserve	for-sale investments revaluation reserve	Exchange fluctuation reserve	Retained profit/(losses)	Total	Minority interests	Total equity
	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
At 1 January 2009	845,900	1,539,938	113,519	64,744	3,590	2,573	5,145	24,546	(11,673)	(23,396)	2,564,886	177,551	2,742,437
Profit for the period	—	—	—	—	—	—	—	—	—	168,943	168,943	19,126	188,069
Other comprehensive income/(loss)	—	—	—	—	—	—	—	(27)	3,286	—	3,259	—	3,259
Total comprehensive income	—	—	—	—	—	—	—	(27)	3,286	168,943	172,202	19,126	191,328
Final 2008 dividend declared	—	—	—	—	—	—	—	—	—	(42,295)	(42,295)	—	(42,295)
Dividends paid to minority shareholders	—	—	—	—	—	—	—	—	—	—	—	(1,506)	(1,506)
Dilution arising from additional contribution by minority shareholders	—	—	(62)	—	—	—	—	—	—	(4,737)	(4,799)	4,799	—
Disposal of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	(45,510)	(45,510)
At 30 June 2009	845,900	1,539,938*	113,457*	64,744*	3,590*	2,573*	5,145*	24,519*	(8,387)*	98,515*	2,689,994	154,460	2,844,454

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
(CONTINUED)**

For the six months ended 30 June 2008 (Restated)

	Attributable to equity holders of the parent												
	Issued share capital	Share premium account	Statutory reserve	General surplus reserve	Reserve fund	Enterprise expansion fund	Available-				Minority interests	Total equity	
							General reserve	and statutory reserve	Investments revaluation reserve	Exchange fluctuation			Retained profit/ (losses)
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 2008	845,900	1,539,938	99,695	64,744	3,373	2,356	4,841	74,932	(8,772)	(51,962)	2,575,045	177,848	2,752,893
Profit for the period	-	-	-	-	-	-	-	-	-	77,943	77,943	9,342	87,285
Other comprehensive loss	-	-	-	-	-	-	-	(33,804)	(2,984)	-	(36,788)	-	(36,788)
Total comprehensive income	-	-	-	-	-	-	-	(33,804)	(2,984)	77,943	41,155	9,342	50,497
Final 2007 dividend declared	-	-	-	-	-	-	-	-	-	(25,377)	(25,377)	-	(25,377)
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	-	(3,702)	(3,702)
Transfer from/(to) reserves	-	-	-	-	217	217	-	-	-	(434)	-	-	-
At 30 June 2008	845,900	1,539,938*	99,695*	64,744*	3,590*	2,573*	4,841*	41,128*	(11,756)*	170*	2,590,823	183,488	2,774,311

\* These reserve accounts comprise the consolidated reserves of RMB1,844,094,000 (six months ended 30 June 2008: RMB1,744,923,000) in the condensed consolidated statement of financial position.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2009

	For the six months ended 30 June	
	2009	2008
	Unaudited	Unaudited
	RMB'000	RMB'000
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>43,360</b>	81,608
<b>NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES</b>	<b>33,561</b>	(152,016)
<b>NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES</b>	<b>(126,301)</b>	68,397
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(49,380)</b>	(2,011)
Cash and cash equivalents at beginning of period	<b>1,044,213</b>	1,049,905
Effect of foreign exchange rates, net	<b>3,286</b>	(2,984)
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>998,119</b>	1,044,910

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2009

### 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 2008, except for the following:

On 1 January 2009, the Group adopted revised HKAS 1 “Presentation of Financial Statements” (HKAS 1). The revised standard aims to improve users’ ability to analyse and compare information given in financial statements. The adoption of this revised standard has no effect on the results reported in the Group’s interim condensed consolidated financial statements. It does, however, result in certain presentational changes in the Group’s primary financial statements, including:

- the adoption of revised title “Statement of financial position” for the “Balance sheet”; and
- the presentation of all items of income and expenditure in two financial statements, the “Income statement” and “Statement of comprehensive income”.

## **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

30 June 2009

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

On 1 January 2009, the Group adopted HKFRS 8 “Operating Segments” (HKFRS 8), which replaced HKAS 14 “Segment Reporting”. HKFRS 8 requires segment information to be reported using the same measure reported to the chief operating decision-maker for the purpose of making decisions about allocating resources to the segment and assessing its performance. According to HKFRS 8, the Group determined its operating segments are: agricultural machinery, construction machinery, financial operations, and diesel engines and fuel jets because the chief operating decision-maker uses these segment information to make decisions about allocating resources and assessing performance. Segment information provided to the chief operating decision maker is on HKFRS basis.

Besides, the Group also adopted a number of new and revised standards and interpretations that have no material impact on the accounting policies of the Group and the methods of computation in the Group’s interim condensed consolidated financial statements. These are described under Note 2.3 of the Company’s 2008 Annual Report and Accounts.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (*CONTINUED*)

30 June 2009

### 2. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments 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; and
- (d) the “Diesel engines and fuel jets” segment engages in the manufacture and sale of diesel engines and fuel injection pumps.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. These reportable segments are the basis on which the Group reports its segment information and no operating segments have been aggregated to form the above reportable operating segments.

Intersegment revenue are eliminated on consolidation. Intersegment sales and transactions are charged at prevailing market prices.

No further geographical segment information is presented as over 90% of the Group’s revenue is derived from customers based in the mainland of the People’s Republic of China (“**Mainland China**”), and over 90% of the Group’s assets are located in Mainland China.

During the period, no revenue from transactions with a single external customer accounted to 10% or more of the Group’s total revenue.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2009

### 2. SEGMENT INFORMATION (Continued)

The following table presents revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2009 and six months ended 30 June 2008, respectively:

*For the six months ended 30 June 2009 (unaudited):*

	Agricultural machinery (RMB'000)	Construction machinery (RMB'000)	Financial operations (RMB'000)	Diesel engines and fuel jets (RMB'000)	Unallocated and eliminations (RMB'000)	Consolidated (RMB'000)
Revenue:						
Third party	4,066,304	553,504	18,198	630,946	—	5,268,952
Intersegment revenue	209,780	29,063	8,459	350,098	(597,400)	—
<b>Total</b>	<b>4,276,084</b>	<b>582,567</b>	<b>26,657</b>	<b>981,044</b>	<b>(597,400)</b>	<b>5,268,952</b>
Results:						
Profit before tax	129,171	(32,859)	20,030	98,677	28,529 <sup>1</sup>	243,548

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

30 June 2009

**2. SEGMENT INFORMATION (Continued)**

**For the six months ended 30 June 2008 (unaudited):**

	Agricultural machinery (RMB'000)	Construction machinery (RMB'000)	Financial operations (RMB'000)	Diesel engines and fuel jets (RMB'000)	Unallocated and eliminations (RMB'000)	Consolidated (RMB'000)
Revenue:						
Third party	3,077,747	926,610	21,711	513,291	—	4,539,359
Intersegment revenue	323,195	37,069	9,029	247,626	(616,919)	—
Total	<u>3,400,942</u>	<u>963,679</u>	<u>30,740</u>	<u>760,917</u>	<u>(616,919)</u>	<u>4,539,359</u>
Results:						
Profit before tax	<u>82,027</u>	<u>(39,644)</u>	<u>21,402</u>	<u>73,229</u>	<u>(10,821)<sup>2</sup></u>	<u>126,193</u>

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2009

### 2. SEGMENT INFORMATION (Continued)

The following table presents segment assets of the Group's operating segments as at 30 June 2009 and 31 December 2008:

	Agricultural machinery (RMB'000)	Construction machinery (RMB'000)	Financial operations (RMB'000)	Diesel engines and fuel jets (RMB'000)	Unallocated and eliminations (RMB'000)	Consolidated (RMB'000)
Segment assets:						
At 30 June 2009 (unaudited)	<u>3,708,585</u>	<u>810,356</u>	<u>1,109,763</u>	<u>1,086,930</u>	<u>(649,814)<sup>3</sup></u>	<u>6,065,820</u>
At 31 December 2008 (audited)	<u>3,294,424</u>	<u>1,101,208<sup>5</sup></u>	<u>1,179,131</u>	<u>831,408</u>	<u>(870,794)<sup>4</sup></u>	<u>5,535,377</u>

<sup>1</sup> The profit for each operating segment does not include net fair value gains on equity investments at fair value through profit or loss (RMB2,702,000), dividend income from listed investments (RMB314,000), gain on disposal of listed equity investments at fair value through profit or loss (RMB871,000), gain on disposal of subsidiaries (RMB25,832,000). The profit/(loss) before tax for the above operating segments include profit from inter-segment sales (RMB1,190,000).

<sup>2</sup> The profit for each operating segment does not include net fair value losses on equity investments at fair value through profit or loss (RMB4,210,000), dividend income from listed investments (RMB59,000), loss on disposal of listed equity investments at fair value through profit or loss (RMB10,502,000) and gain on disposal of available-for-sale investments (RMB4,138,000). The profit/(loss) before tax for the above operating segments include profit from inter-segment sales (RMB306,000).

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (*CONTINUED*)

30 June 2009

### 2. SEGMENT INFORMATION (*Continued*)

- <sup>3</sup> Segment assets do not include available-for-sale investments (RMB107,122,000), equity investments at fair value through profit or loss (RMB86,261,000), goodwill (RMB52,990,000), and investment holding's other assets (RMB127,437,000) as these assets are managed on a group basis. The assets for the above operating segments include inter-segment balances (RMB1,023,624,000).
- <sup>4</sup> Segment assets do not include available-for-sale investments (RMB107,759,000), equity investments at fair value through profit or loss (RMB4,444,000), goodwill (RMB52,990,000), and investment holding's other assets (RMB56,874,000) as these assets are managed on a group basis. The assets for the above operating segments include inter-segment balances (RMB1,092,861,000).
- <sup>5</sup> Includes RMB317,012,000 of assets related to disposal group classified as held for sale.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2009

### 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:

	<b>For the six months ended 30 June</b>	
	<b>2009</b>	2008
	<b>Unaudited</b>	Unaudited
	<b>RMB'000</b>	RMB'000
<hr/>		
<b>Revenue</b>		
Sales of goods*	5,250,754	4,517,648
Interest income from financial operations*	<b>18,198</b>	21,711
	<hr/> <b>5,268,952</b> <hr/>	<hr/> 4,539,359 <hr/>
<b>Other income</b>		
Bank interest income	4,247	5,073
Value-added tax refund	667	1,053
Rental income	4,689	865
Dividend income from listed investments	—	59
Others*	<b>6,237</b>	5,379
	<hr/> <b>15,840</b> <hr/>	<hr/> 12,429 <hr/>
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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

30 June 2009

**3. REVENUE, OTHER INCOME AND GAINS (Continued)**

	For the six months ended 30 June	
	2009	2008
	Unaudited RMB'000	Unaudited RMB'000
<b>Gains</b>		
Gain on disposal of available-for-sale investment	—	4,138
Gain on disposal of listed equity investments at fair value through profit or loss, net	871	—
Gain on disposal of subsidiaries	25,832	—
Others	99	—
	<b>26,802</b>	4,138
	<b>42,642</b>	16,567

\* The amount of interest income from financial operations and a certain amount of revenue from sundry sales and others of RMB21,711,000 and RMB476,963,000, respectively, have been reclassified to "Revenue" on the face of the condensed consolidated income statement for the period ended 30 June 2008 to conform with the current period's presentation. Accordingly, a certain amount of costs from sundry sales and others of RMB444,177,000 has been reclassified to "Cost of sales" on the face of the condensed consolidated income statement for the period ended 30 June 2008.

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

30 June 2009

**4. FINANCE COSTS**

	For the six months ended 30 June	
	2009	2008
	Unaudited RMB'000	Unaudited RMB'000
Interest on bank and other loans	<b>11,727</b>	21,568

**5. PROFIT BEFORE TAX**

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

	For the six months ended 30 June	
	2009	2008
	Unaudited RMB'000	Unaudited RMB'000
Provision for impairment of trade receivables, net	<b>84,549</b>	18,337
Depreciation	<b>58,332</b>	61,010
Interest expense on financial operations	<b>1,408</b>	3,006
Amortisation of prepaid land premiums	<b>220</b>	590
Provision for impairment of other receivables, net	<b>18</b>	1,192
Impairment of property, plant and equipment	<b>—</b>	11,000

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

30 June 2009

**5. PROFIT BEFORE TAX (Continued)**

	For the six months ended 30 June	
	2009	2008
	Unaudited RMB'000	Unaudited RMB'000
Net charge for impairment losses of bills discounted receivable	—	717
Gain on disposal of available-for-sale investments	—	(4,138)
Net reversal for impairment losses of loans receivable	—	(537)
Dividend income from listed investments	—	(59)
Gain on disposal of subsidiaries	<b>(25,832)</b>	—
Interest income from financial operations	<b>(18,198)</b>	(21,711)
Gross rental income	<b>(4,689)</b>	(865)
Bank interest income	<b>(4,247)</b>	(5,073)
Reversal of provision for obsolete inventories, net	<b>(4,136)</b>	(3,434)
Fair value loss/(gain) on listed equity investments at fair value through profit or loss, net	<b>(3,120)</b>	4,208
Loss/(gain) on disposal of listed equity investments at fair value through profit or loss, net	<b>(871)</b>	10,502
Loss/(gain) on disposal of items of property, plant and equipment, net	<b>(534)</b>	227

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2009

### 6. TAX

	For the six months ended 30 June	
	2009	2008
	Unaudited	Unaudited
	RMB'000	RMB'000
Group		
Current — PRC corporate income tax	67,238	48,825
Deferred tax	(11,759)	(9,917)
Total tax charge for the period	<u>55,479</u>	<u>38,908</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 2009 and 2008.

The PRC corporate income tax for the Company and the majority of its subsidiaries is calculated at rates ranging from 15% to 25% (six months ended 30 June 2008: 18% to 25%) 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 within the jurisdiction in which it operates. 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 2008: Nil). In accordance with the law of corporate income tax of the People's Republic of China and its implementation regulations which came into effect on 1 January 2008, profit arising from Mainland China for subsidiary operating outside Mainland China is subject to a corporate income tax at the rate of 10%.

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

30 June 2009

**7. DIVIDEND**

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

**8. 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 2009 is based on the profit for the period attributable to ordinary equity holders of the parent of approximately RMB168,943,000 (six months ended 30 June 2008: RMB77,943,000) and the weighted average of 845,900,000 (six months ended 30 June 2008: 845,900,000) ordinary shares in issue during the period.

Diluted earnings per share amounts for both periods ended 30 June 2009 and 2008 have not been disclosed as no diluting events existed during both periods.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2009

### 9. COMPONENTS OF OTHER COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2009	2008
	Unaudited	Unaudited
	RMB'000	RMB'000
Available-for-sale investments:		
Losses arising during the year	(27)	(40,934)
Less: Reclassification adjustments for gains included in income statement	—	4,138
	<u>(27)</u>	<u>(45,072)</u>

### 10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2009, the Group acquired construction in progress and items of property, plant and equipment in an aggregate amount of approximately RMB23.7million (six months ended 30 June 2008: RMB59.2 million) and disposed of items of property, plant and equipment with an aggregate net book value of approximately RMB4.8million (six months ended 30 June 2008: RMB8.3 million) and resulted in a net gain on disposal of approximately RMB0.5 million (loss of six months ended 30 June 2008: RMB0.2 million). No impairment of items of property, plant and equipment was recognised in the condensed consolidated income statement during the period (six months ended 30 June 2008: 11.0 million).

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2009

### 11. PREPAID LAND PREMIUMS

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

### 12. INTEREST IN A JOINTLY-CONTROLLED ENTITY

The jointly-controlled entity represents the Company's interest in 55% of equity interests in China-Africa Machinery Corporation.

### 13. LOANS RECEIVABLE

	Notes	As at 30 June 2009			As at 31 December 2008		
		Gross		Net	Gross		Net
		allowances			allowances		
		Unaudited	Unaudited	Unaudited	Audited	Audited	Audited
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Loans to the Holding	(a)	302,800	5,888	296,912	302,800	4,542	298,258
Loans to related companies	(b)	92,871	5,390	87,481	129,523	5,969	123,554
Loans to customers	(c)	1,116	17	1,099	3,296	1,916	1,380
		<u>396,787</u>	<u>11,295</u>	<u>385,492</u>	<u>435,619</u>	<u>12,427</u>	<u>423,192</u>
Portion classified							
as current assets		<u>(180,320)</u>	<u>(6,515)</u>	<u>(173,805)</u>	<u>(218,236)</u>	<u>(9,167)</u>	<u>(209,069)</u>
Long term portion		<u>216,467</u>	<u>4,780</u>	<u>211,687</u>	<u>217,383</u>	<u>3,260</u>	<u>214,123</u>

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2009

### 13. LOANS RECEIVABLE (Continued)

Notes:

- (a) *The loans to the holding company, China Yituo Group Corporation Limited (“the Holding”), are granted by China First Tractor Group Finance Company Limited (“FTGF”), a subsidiary of the Group, and are unsecured, bear interest at rates ranging from 5.40% to 7.47% (31 December 2008: 5.67% to 7.47%) per annum and repayable within one to five years (31 December 2008: one to five years).*
- (b) *The loans to these companies (fellow subsidiaries and associates of the Holding) are unsecured and bear interest at rates ranging from 5.57% to 8.59% (31 December 2008: 5.29% to 9.71%) per annum and are repayable within one year (31 December 2008: one to five years).*
- (c) *The loans to customers represent the loans granted to certain customers as permitted by the People’s Bank of China (the “PBOC”).*

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

30 June 2009

**13. LOANS RECEIVABLE (Continued)**

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:

	<b>As at 30 June 2009 Unaudited RMB'000</b>	As at 31 December 2008 Audited RMB'000
Repayable:		
Within three months	<b>102,240</b>	14,835
Within one year but over three months	<b>78,080</b>	203,401
Within five years but over one year	<b>215,427</b>	216,075
Over five years	<b>1,040</b>	1,308
	<b>396,787</b>	435,619

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2009

### 14. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, where payment in advance from customers is normally required. The credit periods granted 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:

	<b>As at 30 June 2009 Unaudited RMB'000</b>	<b>As at 31 December 2008 Audited RMB'000</b>
Within 90 days	<b>1,318,911</b>	457,445
91 days to 180 days	<b>201,515</b>	297,133
181 days to 365 days	<b>66,635</b>	39,215
1 to 2 years	<b>18,080</b>	16,807
Over 2 years	<b>7,017</b>	3,272
	<b><u>1,612,158</u></b>	<b><u>813,872</u></b>

Included in the trade and bills receivables of the Group as at 30 June 2009 are trade receivables (net of provision) from the associates of approximately RMB2,024,000(31 December 2008: RMB124,000).

Included in the trade and bills receivables of the Group as at 30 June 2009 are trade receivables (net of provision) from the Holding of approximately RMB1,646,000 (31 December 2008: RMB45,000).

As at 30 June 2009, certain of the Group's bills receivables of approximately RMB52,092,000(31 December 2008: RMB59,815,000) were pledged for the issuance of bills payable.

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

30 June 2009

**15. BILLS DISCOUNTED RECEIVABLE**

The bills discounted receivable arose from the Group's financial operation. Included in the bills discounted receivable (net of impairment) of the Group are approximately RMB123,541,000 (31 December 2008: RMB118,698,000) related to the Holding and approximately RMB88,030,000 (31 December 2008: RMB1,165,000) related to related companies.

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

	<b>As at 30 June 2009 Unaudited RMB'000</b>	<b>As at 31 December 2008 Audited RMB'000</b>
Maturing:		
Within three months	<b>161,185</b>	80,803
Within six months but over three months	<b>52,709</b>	50,449
	<b>213,894</b>	131,252
Less: Impairment allowance for bills discounted receivable	<b>(1,969)</b>	(1,969)
	<b>211,925</b>	129,283

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

30 June 2009

**16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**

Other receivables include a balance due from the Holding of RMB112,274,000 (31 December 2008: RMB115,921,000), and such balance is unsecured, interest-free and have no fixed terms of repayment.

**17. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS**

	<b>As at 30 June 2009 Unaudited RMB'000</b>	<b>As at 31 December 2008 Audited RMB'000</b>
Cash and bank balances — <i>Note (a)</i>	<b>665,425</b>	657,466
Mandatory reserve deposits with the PBOC — <i>Note (b)</i>	<b>67,316</b>	67,679
Time deposits	<b>332,694</b>	399,747
	<b>1,065,435</b>	1,124,892
Less: Pledged bank balances for bills payable	<b>(344,671)</b>	(366,357)
Cash and cash equivalents in statement of financial position	<b>720,764</b>	758,535

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

30 June 2009

**17. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (Continued)**

	<b>As at 30 June 2009 Unaudited RMB'000</b>	<b>As at 31 December 2008 Audited RMB'000</b>
Less: Non-pledged time deposits with maturity within one year but over three months when acquired	—	(13,000)
Less: Mandatory reserve deposits with the PBOC	<b>(67,316)</b>	(67,679)
Add: Pledged bank balances for issuing bills payable — <i>Note (c)</i>	<b>344,671</b>	366,357
Cash and cash equivalents in the statement of cash flows	<b>998,119</b>	1,044,213

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2009

### 17. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (Continued)

Notes:

- (a) *The balance included FTGF's placements with the PBOC and other banks of approximately RMB24,312,000 (31 December 2008: RMB229,563,000) and RMB196,195,000 (31 December 2008: RMB170,596,000), respectively.*
- (b) *The balance represents mandatory reserve deposits placed with the PBOC. In accordance with the regulations of the PBOC, such balance should be no less than a specific percentage of the amounts of the customer deposits placed with FTGF. Such mandatory reserve deposits are not available for use in the Group's day-to-day operations.*
- (c) *As the bank balances were pledged for the Group's trade facilities for issuing bills payable, they are included in cash and cash equivalents in the condensed consolidated statement of cash flows. The balance of pledged bank balance, for issuing bills payable of RMB263,254,000 has been reclassified into "Cash and cash equivalents" on the face of condensed consolidated statement of cash flows for the period ended 30 June 2008 to conform with the current period's presentation.*

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

30 June 2009

**18. 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:

	<b>As at 30 June 2009 Unaudited RMB'000</b>	<b>As at 31 December 2008 Audited RMB'000</b>
Within 90 days	<b>1,576,959</b>	1,125,511
91 days to 180 days	<b>150,438</b>	168,224
181 days to 365 days	<b>65,628</b>	70,577
1 to 2 years	<b>61,262</b>	37,901
Over 2 years	<b>43,495</b>	46,785
	<b>1,897,782</b>	1,448,998

The Group's bills payables amounting to approximately RMB508,146,000 (31 December 2008: RMB411,070,000) are secured by the pledge of certain of the Group's deposits amounting to approximately RMB344,671,000 (31 December 2008: RMB366,357,000).

Included in the trade and bills payables of the Group are trade payables to the Holding of approximately RMB2,580,000 (31 December 2008: RMB4,737,000).

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2009

### 19. OTHER PAYABLES AND ACCRUALS

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 RMB55,597,000 (31 December 2008: RMB49,021,000) and RMB5,000,000 (31 December 2008: RMB10,182,000), respectively. Such balances are unsecured, interest-free and have no fixed terms of repayment.

### 20. CUSTOMER DEPOSITS

	<b>As at 30 June 2009 Unaudited RMB'000</b>	<b>As at 31 December 2008 Audited RMB'000</b>
Deposits from the Holding	<b>132,735</b>	70,264
Deposits from associates	<b>931</b>	367
Deposits from fellow subsidiaries and associates of the Holding	<b>125,780</b>	124,653
Deposits from customers	<b>4,735</b>	2,933
	<b>264,181</b>	198,217

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

30 June 2009

**20. CUSTOMER DEPOSITS (Continued)**

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

	<b>As at 30 June 2009 Unaudited RMB'000</b>	<b>As at 31 December 2008 Audited RMB'000</b>
Repayable:		
On demand	<b>260,119</b>	196,611
Within three months	<b>800</b>	—
Within one year but over three months	<b>3,000</b>	1,345
Over one year	<b>262</b>	261
	<b>264,181</b>	198,217

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

30 June 2009

**21. DISPOSAL OF SUBSIDIARIES**

On 26 March 2009, the Group entered into the Equity Transfer Agreements with Singapore Commuter Private Limited to dispose of its entire 59% of equity interests each in its two subsidiaries, Zhenjiang Huachen Huatong Road Machinery Company Limited and Zhenjiang Huatong Aran Machinery Company Limited at an aggregate consideration of RMB85,144,729. Such transaction has been completed in 30 April 2009. The principal activities of the subsidiaries are manufacture and sales of road construction machineries.

	<i>Notes</i>	<b>2009</b> <b>RMB'000</b>
Net assets disposed of:		
Property, plant and equipment		53,256
Deferred tax assets		1,334
Available for sale investments		814
Cash and bank balances		25,156
Inventories		73,435
Trade and bills receivables		111,623
Prepayments, deposits and other receivables		98,244
Interest-bearing bank borrowings		(84,511)
Trade and bills payables		(92,229)
Other payables and accruals		(82,299)
Minority interests		(45,510)
		<hr/>
		59,313
Gain on disposal of subsidiaries	3,5	25,832
		<hr/>
		<b>85,145</b>
Satisfied by:		
Cash		85,145
		<hr/> <hr/>

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

30 June 2009

**22. CAPITAL COMMITMENTS**

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

	<b>As at 30 June 2009 Unaudited RMB'000</b>	<b>As at 31 December 2008 Audited RMB'000</b>
<hr/>		
Contracted, but not provided for:		
Purchase of plant and machinery	<b>67,736</b>	29,877
Additional capital contribution into a jointly-controlled entity	<b>101,200</b>	—
	<hr/> <b>168,936</b>	<hr/> 29,877
Authorised, but not contracted for:		
Purchases of land use rights	<b>231,311</b>	231,736
Purchase of plant and machinery	<b>829,511</b>	856,243
Investment in a joint venture	<b>51,000</b>	120,526
	<hr/> <b>1,111,822</b>	<hr/> 1,208,505
	<hr/> <b>1,280,758</b>	<hr/> <b>1,238,382</b>
	<hr/>	

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2009

### 23. 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	
	2009	2008
	Unaudited	Unaudited
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of raw materials, finished goods and components	<b>256,983</b>	415,241
Purchases of raw materials and components	<b>587,579</b>	499,561
Purchases of utilities	<b>52,732</b>	59,908
Fees paid for welfare and support services	<b>17,966</b>	12,790
Purchases of transportation services	<b>23,822</b>	17,517
Research and development expenses paid	<b>8,575</b>	15,203
Fees paid for the use of land	<b>5,980</b>	3,911
Fees paid for the use of a trademark	<b>7,110</b>	10,229
Rentals paid in respect of:		
Buildings	<b>1,002</b>	5,801
Plant and machinery	<b>92</b>	—

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

30 June 2009

**23. 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)*

	For the six months ended 30 June	
	2009 Unaudited RMB'000	2008 Unaudited RMB'000
Rental income received in respect of buildings	4,689	760
Purchases of plant and machinery	28	984
Interest income and discounted bills charges	4,522	18,778
Interest paid for customer deposits	483	387
Service charge for a guarantee	—	72

The above transactions were carried out in the Group's ordinary and usual course of business and in accordance with the terms of the agreements governing the transactions.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2009

### 23. RELATED PARTY TRANSACTIONS (Continued)

#### (b) Other transactions with related parties

- (i) Designated deposits and designated loans

As at 30 June 2009, the Holding placed an aggregate amount of RMB61 million (31 December 2008: RMB46.8 million) with FTGF to provide entrusted loans to the fellow subsidiaries and an associate of the Holding.

As at 30 June 2009, Yituo International Commerce Company Limited, a subsidiary of the Holding placed a designated deposit of RMB2 million (31 December 2008: 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 related parties to the Group

As at 30 June 2009, the Holding provided a guarantee, at nil consideration, to the extent of RMB40 million (31 December 2008: RMB50 million) to a bank for securing the banking facilities granted to the Company. As at 30 June 2009, the aforesaid banking facilities were utilised to the extent of RMB40 million (31 December 2008: RMB50 million).

## **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

30 June 2009

### **23. RELATED PARTY TRANSACTIONS (Continued)**

#### **(c) Outstanding balances with related parties**

- (i) Details of the Group's amount due from/to the Holding, and the Group's loans to and deposits from the Holding as at the balance sheet date are disclosed in notes 13, 14, 15, 16, 18, 19 and 20 to the interim condensed consolidated financial statements.
- (ii) Details of the Group's amounts due from and deposits from its associates as at the balance sheet date are included in notes 14 and 20 to the interim condensed consolidated financial statements, respectively.
- (iii) Details of the Group's amounts due from/to with its related companies (fellow subsidiaries and associates of the Holding) as at the balance sheet date are disclosed in notes 13, 15 and 20 to the interim condensed consolidated financial statements.
- (iv) Details of the Group's amounts due to the minority shareholders as at the balance sheet date are disclosed in notes 19 to the interim condensed consolidated financial statements.

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

30 June 2009

**23. RELATED PARTY TRANSACTIONS (Continued)**

**(d) Compensation of key management personnel of the Group**

	For the six months ended 30 June	
	2009	2008
	Unaudited RMB'000	Unaudited RMB'000
Short term employee benefits	706	642
Post-employment benefits	141	128
Total compensation paid/payable to key management personnel	<b>847</b>	<b>770</b>

**24. APPROVAL OF THE INTERIM FINANCIAL REPORT**

These unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 21 August 2009.

## OPERATION REVIEW

In the first half of 2009, a series of state-run measures to expand the domestic demand and maintain the economic growth against the international financial crisis had gradually put the national economy back on track. The gross domestic products posted a year-on-year increase of 7.1%, showing that a promising development is underway. The agricultural machinery industry also developed rapidly in the first half of 2009 as boosted by the State's supporting and preferential agricultural policies. The nationwide sales revenue and sales volume of the tractors industry recorded a year-on-year increase of 15.2% and 7.6% respectively, among which the sales volume of large and medium tractors recorded a year-on-year increase of 32.4% and the sales volume of small wheeled tractors recorded a year-on-year decrease of 16.8%. The sales volume of harvesters increased by 148.7% as compared with that in the Corresponding Period, among which the sales volume of the harvesters of wheat and corn increased by 40% as compared with that in the Corresponding Period.

Benefiting from the State's RMB4 trillion policy on stimulating domestic demand, the monthly negative growth in the construction machinery industry began to shrink during the Reporting Period, mainly attributable to the slowing down of the year-on-year drop in the sales volume of the stabilizing major construction machinery products during the Reporting Period albeit a more significant year-on-year decrease in exports. Among the construction machinery industry, except for the sales volume of the road rollers recorded a year-on-year increase of 7%, other major products recorded a lower year-on-year sales volume, among which the bulldozers, loaders and forklifts plunged with a year-on-year decrease of 17%, 32.6% and 36.5% respectively.

During the Reporting Period, the Group proactively responded to the changes in the domestic and international economic environment by propelling the structural adjustments and seizing the market opportunities by all means. Meanwhile, the Group continued to improve its management in various aspects, foster the restructurings of businesses and assets, as well as consolidating resources and scientific development. The Group recorded a synchronous growth in scale and efficiency during the Reporting Period, with a turnover of RMB5,268,952,000, representing a year-on-year increase of 16.1%. The profit attributable to the equity holders of the parent amounted to RMB168,943,000, representing a year-on-year increase of 116.8%, with earnings per share of approximately RMB19.97 cents.



## OPERATION REVIEW (CONTINUED)

During the Reporting Period, the Group sold an aggregate of 38,325 units of the large and medium tractors, representing a year-on-year growth of 38.7%, including large wheeled tractors of 23,281 units, medium wheeled tractors of 13,473 units, and crawler tractors of 1,571 units, representing a year-on-year growth of 53.6%, 21.5% and 13.2% respectively. The sales volume of small wheeled tractors was 21,245 units, representing a year-on-year decrease of 43.6%. The sales volume of harvesters was 2,253 units, representing a year-on-year increase of 99%. Benefiting from the thriving sales of the agricultural machinery, the sales volume of the diesel engines was 82,987 units (of which 52,887 units were from external sales), representing a year-on-year increase of 42.6%. The sales volume of the major construction machinery products decreased significantly, with a year-on-year decrease of 12.1%, 64.2%, 32% and 41.3% in bulldozers, large loaders, road rollers and forklifts respectively.

During the first half of 2009, exports of agricultural machinery business and construction machinery business recorded a year-on-year plunge due to the international financial crisis. During the Reporting Period, the Group exported agricultural machineries of various kinds of 1,383 units, representing a year-on-year decrease of 48.9%, and exported construction machineries of various kinds of 189 units, representing a year-on-year decrease of 65.3%.

## ANALYSIS OF OPERATING RESULTS

### Segment results

By segment	Operating revenue				Profit before tax			
	By 30 June		By 30 June		Percentage			
	2009		2008		change			
	(RMB'000)		(RMB'000) <sup>(Note 1)</sup>		in external			
	Including:		Including:		revenue	By 30 June	By 30 June	Percentage
Segment	external	Segment	external	2009	2008	change		
revenue	revenue	revenue	revenue	(%)	(RMB'000)	(RMB'000)	(%)	
Agricultural machinery business	4,276,084	4,066,304	3,400,942	3,077,747	32.1	129,171	82,027	57.5
Construction machinery business	582,567	553,504	963,679	926,610	-40.3	(32,859)	(39,644)	17.1
Engine machinery business	981,044	630,946	760,917	513,291	22.9	98,677	73,229	34.8
Financial business	26,657	18,198	30,740	21,711	-16.2	20,030	21,402	-6.4
Unallocated and eliminations <sup>(Note 2)</sup>	(597,400)		(616,919)			28,529 <sup>(Note 3)</sup>	(10,821)	
<b>Total</b>	<b>5,268,952</b>	<b>5,268,952</b>	<b>4,539,359</b>	<b>4,539,359</b>	<b>16.1</b>	<b>243,548</b>	<b>126,193</b>	<b>93</b>

## ANALYSIS OF OPERATING RESULTS (CONTINUED)

### Segment results (Continued)

*Note 1: Retrospective adjustments are made on the operating revenue in the first half of 2008.*

*Note 2: Included profits such as investment gains which were unallocated to the business segments and elimination of the Group's inter-segment transaction.*

*Note 3: Mainly from the net investment gains from the disposal of the equity interests in Zhenjiang Huachen Huatong Road Machinery Co., Ltd.\* ("ZHHRM") (鎮江華農華通路面機械有限公司) and Zhenjiang Huatong Aran Machinery Co., Ltd.\* ("ZHAM") (鎮江華通阿倫機械有限公司), subsidiaries of the Company, during the Reporting Period, amounting to approximately RMB25,832,000.*

## TURNOVER

During the Reporting Period, the turnover of the Group recorded a year-on-year increase of 16.1% amounting to RMB729,593,000, mainly from the agricultural machinery business and engine machinery business, among which the agricultural machinery business recorded a turnover of RMB4,066,304,000, representing a year-on-year increase of RMB988,557,000 or 32.1%. The growth in turnover was mainly attributable to the significant increase in the sales of the large and medium tractors, harvesters and agricultural machinery products. Benefiting from the growth in the agricultural machinery, the engine machinery business recorded a turnover of RMB630,946,000, representing a year-on-year increase of RMB117,655,000 or 22.9%. The construction machinery business recorded a turnover of RMB553,504,000, representing a year-on-year decrease of RMB373,106,000 or 40.3%. After excluding the effects of the disposals of ZHHRM and ZHAM on turnover, the turnover of construction machinery business recorded a year-on-year decrease of RMB291,084,000, mainly due to the shrinking demand in the domestic and international markets as well as the unaligned product mix.

## GROSS PROFIT AND GROSS MARGIN

During the Reporting Period, the Group's gross profit was RMB736,108,000, representing a year-on-year increase of 38.5%. The consolidated gross margin was 13.97%, representing a year-on-year increase of 2.26 percentage points. The increases were mainly due to the growth in the sales of large wheeled tractors and engine machinery products, as well as better adjusted product mix, joined by the reason that the price of the raw material was lower during the Reporting Period as compared with that in the Corresponding Period, the product profitability was thereby significantly improved. In particular, the gross margins of agricultural machinery business and engine machinery business recorded a year-on-year increase of approximately 2.7 percentage points and approximately 1.1 percentage points respectively; whereas a slight increase was recorded in the construction machinery business.

## OTHER INCOME AND GAINS

During the Reporting Period, the Group's other income and gains was RMB42,642,000, representing a year-on-year increase of 157.4%, among which the investment gains from the disposals of the equity interests in ZHHRM and ZHAM amounted to approximately RMB25,832,000.

## EXPENSES DURING THE REPORTING PERIOD

Expenses	By 30 June 2009 (RMB'000)	By 30 June 2008 (RMB'000)	Percentage of change (%)
Selling costs	<b>202,096</b>	148,020	<b>36.5</b>
Administrative expenses	<b>233,557</b>	192,517	<b>21.3</b>
Other expenses	<b>87,822</b>	57,764	<b>52</b>
Finance costs	<b>11,727</b>	21,568	<b>-45.6</b>

## EXPENSES DURING THE REPORTING PERIOD (CONTINUED)

- (1) The Group's selling costs for the Reporting Period was RMB202,096,000, representing a year-on-year increase of RMB54,076,000 or 36.5% which was attributable to i) the higher selling costs of approximately RMB30,000,000 due to the increase in the sales volumes of the agricultural machinery and engine machinery products; and ii) the increased expenditures for the global and domestic sales network expansions and service enhancement.
- (2) The Group's administrative expenses for the Reporting Period was RMB233,557,000, representing a year-on-year increase of RMB41,040,000 or 21.3%. Such increase was mainly because more efforts were made on the research and development of new products and technologies during the first half of 2009. The costs for research and development was RMB95,570,000, representing a year-on-year increase of approximately RMB35,510,000.
- (3) Other expenses recorded a year-on-year increase of RMB30,058,000 during the Reporting Period, which was mainly attributable to an increase in the trade receivables, thereby more bad debt provision was recorded.
- (4) During the Reporting Period, the Group adjusted its loan structure by repaying the long-term bank loan of RMB144,000,000, resulting in a year-on-year decrease of RMB9,841,000 or 45.6% in the Group's finance costs.

## PROFIT BEFORE TAX

As at 30 June 2009, the Group's profit before tax was RMB243,548,000, representing a year-on-year increase of 93%, among which the agricultural machinery business and engine machinery business increased by 57.5% and 34.8% respectively, and a reduced year-on-year loss in the construction machinery business of RMB6,785,000 was recorded. Due to the decreases in interest rates for deposits and loans, the profit before tax for the financial business decreased by approximately 6.4% compared with that in the Corresponding Period, while the unallocated investment gains/(losses) and the eliminations etc. increased by RMB39,350,000 compared with that in the Corresponding Period.

## ASSETS AND LIABILITIES

- (1) **Trade and bills receivables:** As at 30 June 2009, the trade and bills receivables of the Group recorded an increase of RMB798,286,000 or 98% as compared with that at the beginning of the Reporting Period, among which the trade receivables and bills receivables increased by RMB691,396,000 and RMB106,890,000 respectively. The increase in trade receivables was mainly due to the deferred payment of the State's subsidy for the purchase of agricultural machinery in the first half of 2009.

During the Reporting Period, the turnover days of the trade and bills receivables of the Group was 43 days, which was 9 days faster than 52 days in 2008.

- (2) **Inventory:** Through enhancing the inventory management and liquidating the social inventory, joined by the significant increase in the sales volume, as at 30 June 2009, the inventory of the Group amounted to RMB748,226,000, representing a decrease of 11.1% compared with that at the beginning of the Reporting Period. The inventory structure was effectively improved. The long-term inventory of more than one year decreased by 36.8% compared with that in the Corresponding Period.

During the Reporting Period, the Group's inventory turnover days was 39 days, which was 15 days faster than 54 days in 2008.

- (3) **Loans receivables:** As at 30 June 2009, the Group's loans receivables amounted to RMB385,492,000, representing a decrease of RMB37,700,000 compared with that at the beginning of the Reporting Period, mainly as a result of the reduced loans to YTO Group Corporation Limited\* ("**YTO Group**") (中國一拖集團有限公司) and its subsidiaries and associates granted by China First Tractor Group Finance Company Limited\* ("**FTGF**") (中國一拖集團財務有限責任公司), a subsidiary of the Company.



## ASSETS AND LIABILITIES (CONTINUED)

- (4) **Trade and bills payables:** As at 30 June 2009, the Group's trade and bills payables aggregated to RMB1,897,782,000, representing an increase of RMB448,784,000 compared with that at the beginning of the Reporting Period. Among the total, the trade payable increased by RMB374,849,000, mainly due to the deferred sales payment of the agricultural machineries from the customers and the subsequent strategic cooperation between the Group and its major suppliers to extend the payment terms with a view to seizing market opportunities and expanding sales. The bills payable recorded a year-on-year increase of RMB73,935,000, mainly due to the reduction in financial costs and adjustment on the finance structure.
- (5) **Bank borrowings:** During the Reporting Period, the Group adjusted its loan structure and repaid long-term bank borrowings amounting to RMB144,000,000 in order to cut down the finance costs. As at 30 June 2009, the Group had no long-term bank loans but had short-term bank borrowings of RMB228,500,000, representing a year-on-year increase of RMB61,500,000.
- (6) **Deposits from customers:** As at 30 June 2009, the Group's deposits from customers amounted to RMB264,181,000, representing an increase of RMB65,964,000 compared with that at the beginning of the Reporting Period, mainly attributable to the increased deposits of YTO Group and its subsidiaries with FTGF.

## FINANCIAL RATIOS

Items	Basis of calculation	By 30 June	By 31 December
		2009	2008
Gearing ratio	Total liabilities/Total assets x 100%	<b>53.11%</b>	50.46%
Current ratio	Current assets/Current liabilities	<b>1.43</b>	1.54
Quick ratio	(Current assets - inventories)/ Current liabilities	<b>1.19</b>	1.20
Debt equity ratio	Total liabilities/ shareholders' equity x 100%	<b>119.75%</b>	108.89%

*Note: Shareholders' equity (excluding minority interests).*

As at 30 June 2009, the gearing ratio of the Group was 53.11%, representing a year-on-year increase of 2.65 percentage points. A sound solvency was still maintained.

## PLEDGE OF ASSETS

As at 30 June 2009, none of the Group's buildings and machineries were pledged (2008: RMB62,308,000) to secure the bank loans granted to the Group.

As at 30 June 2009, none of the Group's prepaid land premiums were pledged (2008: RMB8,404,000) to secure the bank loans granted to the Group.

As at 30 June 2009, the Group's deposits of approximately RMB344,671,000 (2008: RMB366,357,000) were pledged to secure the Group's bills payable of RMB508,146,000 (2008: RMB411,070,000).

## CONTINGENT LIABILITIES

As at 30 June 2009, the Group did not have any significant contingent liabilities.

## CURRENCY EXCHANGE RISK

As the Group carried out its principal production and business activities in the People's Republic of China (“**the PRC**”) during the Reporting Period, its income from and expenditure for the international businesses were mainly denominated in Renminbi. Accordingly, the fluctuation in the currency exchange rates did not materially affect the operating results. The Group's debt in foreign currency was mainly used for the payment of commissions for intermediaries outside the PRC and dividends to holders of H shares. The Group's cash are usually deposited with financial institutions in the form of short-term deposits. The bank loans and the repayments of the loans are all in Renminbi.

As at 30 June 2009, there was no pledge of any deposits in foreign currency by the Group.

## INVESTMENT

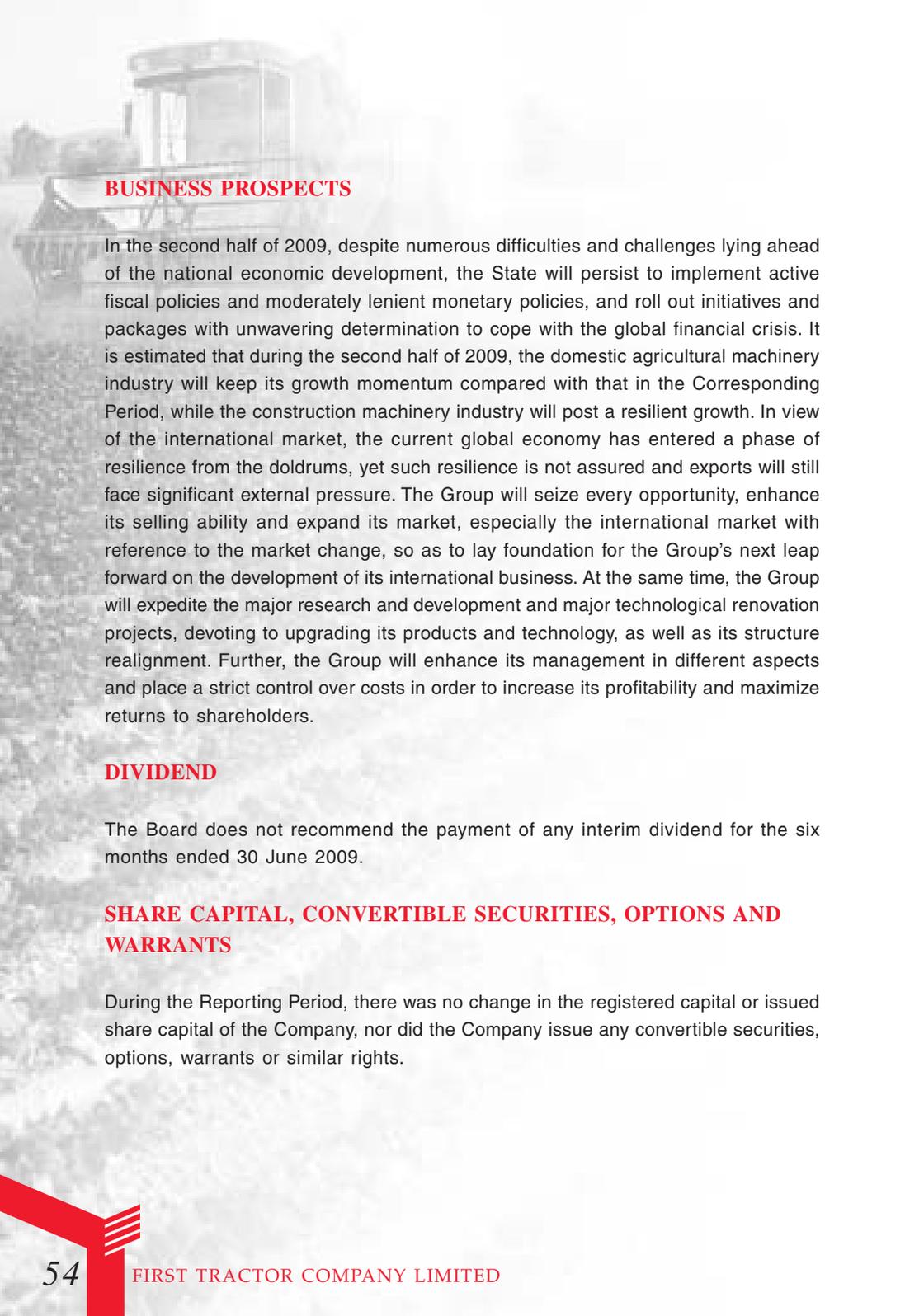
The Company and China-Africa Development Fund Company Limited\* (“**CADF**”) (中非發展基金有限公司) entered into a joint venture agreement (the “**JV Agreement**”) relating to the joint funding for the establishment of China-Africa Machinery Corporation\* (“**CAMACO**”) (中非重工投資有限公司), a limited liability company on 15 April 2009. The registered capital of CAMACO is RMB250,000,000. The Company and CAMACO will contribute RMB137,500,000 and RMB112,500,000 respectively, representing 55% and 45% of its shareholding. Both parties had contributed a capital aggregating RMB66,000,000, being the first installment, in May 2009 pursuant to the JV Agreement. CAMACO was registered in Beijing on 27 May 2009. The major business of CAMACO includes conducting investments in agricultural machinery and construction machinery, etc, in Africa, as well as trading agricultural machinery, construction machinery, mechanical parts and other various products.

## DISPOSAL OF SUBSIDIARIES

On 26 March 2009, Brilliance China Machinery Holdings Limited\* (“**BCM**”) (華晨中國機械控股有限公司), a subsidiary of the Company, entered into the *Agreement on Equity Transfer of Zhenjiang Huachen Huatong Road Machinery Co., Ltd.* and the *Agreement on Equity Transfer of Zhenjiang Huatong Aran Machinery Co., Ltd.* with Singapore Commuter Private Limited (“**Singapore Commuter**”), an independent third party, pursuant to which BCM sold 59% of the equity interests in each of ZHHRM and ZHAM to Singapore Commuter. Upon completion of the disposals, BCM ceased to have any equity interests in ZHHRM and ZHAM.

## THE GROUP’S STAFF, REMUNERATION POLICY AND TRAINING FOR STAFF

As at 30 June 2009, the Group had in place 11,687 staff members. During the Reporting Period, the total remuneration amounted to RMB151,648,000. The emolument policies of the staff of the Group are set up by the personnel department on the basis of their merit, qualification and competence. In the first half of 2009, the Group adopted the training policy of “trainings as required” through a number of ways. Staff from different levels, with a total of 6,395 person-times, had received trainings, which improved the working standard of the Group’s employees.



## **BUSINESS PROSPECTS**

In the second half of 2009, despite numerous difficulties and challenges lying ahead of the national economic development, the State will persist to implement active fiscal policies and moderately lenient monetary policies, and roll out initiatives and packages with unwavering determination to cope with the global financial crisis. It is estimated that during the second half of 2009, the domestic agricultural machinery industry will keep its growth momentum compared with that in the Corresponding Period, while the construction machinery industry will post a resilient growth. In view of the international market, the current global economy has entered a phase of resilience from the doldrums, yet such resilience is not assured and exports will still face significant external pressure. The Group will seize every opportunity, enhance its selling ability and expand its market, especially the international market with reference to the market change, so as to lay foundation for the Group's next leap forward on the development of its international business. At the same time, the Group will expedite the major research and development and major technological renovation projects, devoting to upgrading its products and technology, as well as its structure realignment. Further, the Group will enhance its management in different aspects and place a strict control over costs in order to increase its profitability and maximize returns to shareholders.

## **DIVIDEND**

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2009.

## **SHARE CAPITAL, CONVERTIBLE SECURITIES, OPTIONS AND WARRANTS**

During the Reporting Period, there was no change in the registered capital or issued share capital of the Company, nor did the Company issue any convertible securities, options, warrants or similar rights.

## REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor its subsidiaries repurchased, sold or redeemed the Company's listed securities during the Reporting Period.

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

As at 30 June 2009, none of the Directors, Supervisors (the "**Supervisors**") and chief executives of the Company had any interests or short positions in any shares, underlying shares or 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 and short positions held or deemed to be held by such Directors, Supervisors and chief executives under such provisions of the SFO), or to be recorded in the register as described under section 352 of the SFO, or to be notified to the Company and the Stock Exchange pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers* as set out in Appendix 10 of the Listing Rules of the Stock Exchange (the "**Listing Rules**") and *Code on Takeovers and Mergers*.

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

As at 30 June 2009, the Company has issued a total of 845,900,000 shares. The structure of the share capital of the Company is shown as follows:

Type of Shares	Number of Shares	Percentage (%)
(1) Non-circulating state-owned legal person shares (the “ <b>Domestic Shares</b> ”)	443,910,000	52.48
(2) Circulating shares listed in the Stock Exchange (the “ <b>H Shares</b> ”)	401,990,000	47.52
Total share capital	845,900,000	100.00

## SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2009, the following shareholders of the Company (other than the Directors, Supervisors or chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

### Domestic Shares

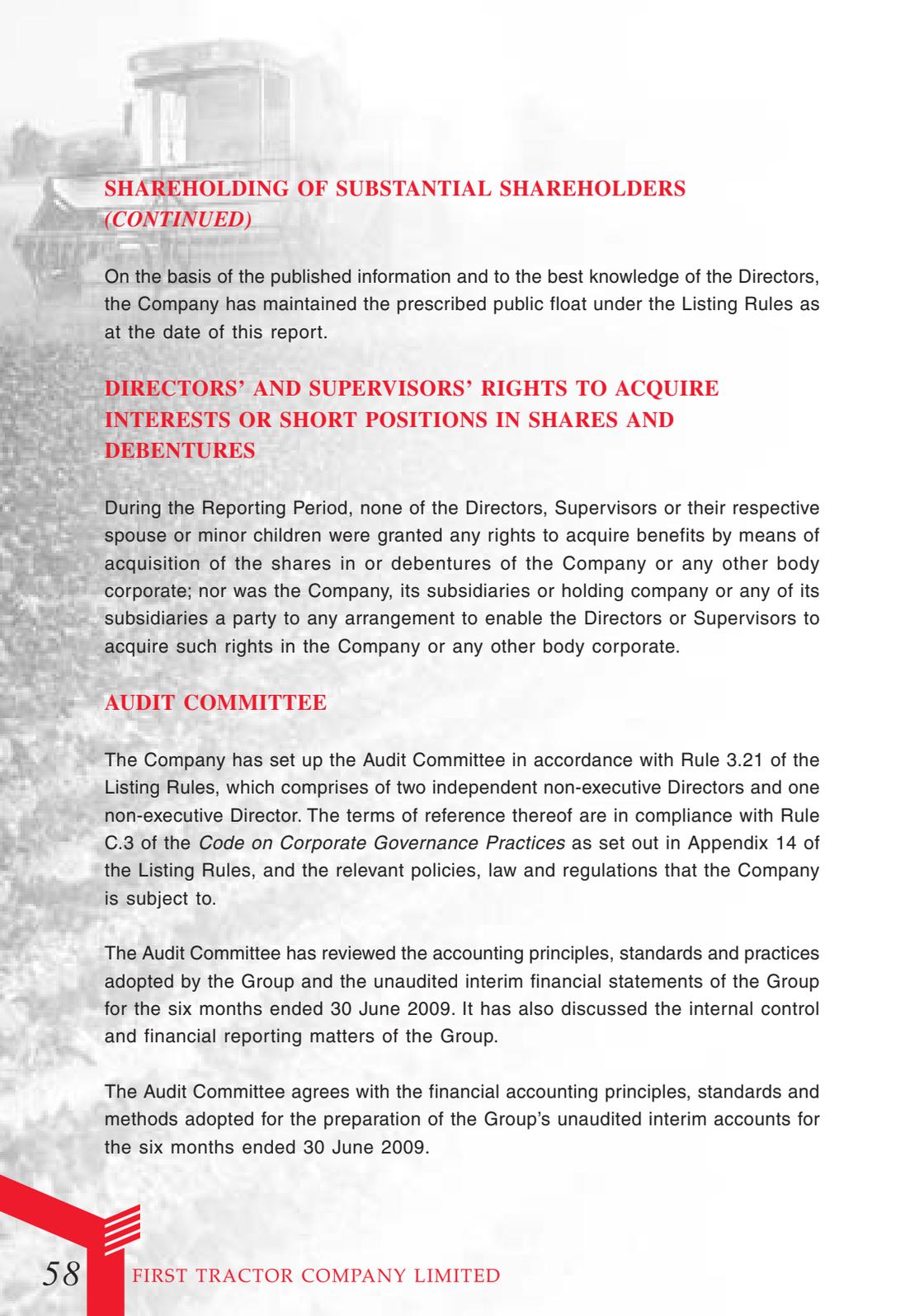
Name of shareholder	Nature of interests	Number of Shares	Approximate percentage of the total issued share capital of the Company
YTO Group	Beneficial owner	443,910,000 shares (L)	52.48%

### H Shares

Name of shareholder	Nature of interests	Number of Shares (L)	Approximate percentage of the total issued H Shares of the Company
DnB NOR Asset Management (Asia) Limited	Investment manager	47,748,000	11.88%
JPMorgan Chase & Co.	Investment manager	20,322,000	5.06%

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

Save as disclosed above, there are no other persons (other than the Directors, Supervisors or the chief executives of the Company) who, as at 30 June 2009, had any interest or 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.



## **SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS (CONTINUED)**

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 Listing Rules as at the date of this report.

## **DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE INTERESTS OR SHORT POSITIONS IN SHARES AND DEBENTURES**

During the Reporting Period, none of the Directors, Supervisors or their respective spouse or minor children were granted any rights to acquire benefits by means of acquisition of the shares in or debentures of the Company or any other body corporate; nor was the Company, its subsidiaries or holding company or any of its subsidiaries a party to any arrangement to enable the Directors or Supervisors to acquire such rights in the Company or 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 two independent non-executive Directors and one non-executive Director. The terms of reference thereof are in compliance with Rule C.3 of the *Code on Corporate Governance Practices* as set out in Appendix 14 of the Listing Rules, and the relevant policies, law and regulations that the Company is subject to.

The Audit Committee has reviewed the accounting principles, standards and practices adopted by the Group and the unaudited interim financial statements of the Group for the six months ended 30 June 2009. It has also discussed the internal control and financial reporting matters of the Group.

The Audit Committee agrees with the financial accounting principles, standards and methods adopted for the preparation of the Group's unaudited interim accounts for the six months ended 30 June 2009.

## SIGNIFICANT EVENTS

1. In the 2008 annual general meeting of the Company held on 19 June 2009, Mr. Liu Dagong, Mr. Zhao Yanshui, Mr. Yin Linjiao, Mr. Shao Haichen, Mr. Liu Yongle, Ms. Dong Jianhong, Mr. Qu Dawei and Mr. Li Xibin were elected as the Directors of the fifth Board of the Company; while Mr. Chen Zhi, Mr. Chan Sau Shan, Gary, Mr. Luo Xiwen and Mr. Hong Xianguo were elected as the independent non-executive Directors of the fifth Board of the Company. The fifth supervisory committee of the Company (the “**Supervisory Committee**”) comprises of Mr. Zheng Luyu, Ms. Yi Liwen, Mr. Zhao Shengyao, Mr. Shao Jianxin, Mr. Wang Yong and Mr. Huang Ping. The appointments of the Directors of the fifth Board and the Supervisors of the fifth Supervisory Committee became effective from 1 July 2009 for a term of three years.
2. At the first meeting of the fifth Board of the Company, Mr. Liu Dagong was elected as the chairman of the Company. Mr. Qu Dawei was elected as the general manager of the Company. Ms. Ren Huijuan, Mr. Liu Jiguo, Mr. Li Xibin, Mr. Jin Yang, Mr. Lian Guoqing and Mr. Jiao Tianmin were appointed as the deputy general managers of the Company. Ms. Dong Jianhong was appointed as the chief financial officer. Ms. Yu Lina was appointed as the secretary of the Board.
3. On 27 February 2009, the fourth Board of the Company resolved to grant approval to the Company to jointly establish YTO Heilongjiang Modern Agricultural Machinery Company Limited\* (一拖黑龍江現代農業裝備有限公司) (“**Joint Venture Company**”) with Heilongjiang Agricultural Machinery Company Limited\* (黑龍江省農業機械有限公司) (“**Heilongjiang Agricultural Machinery Company**”) in Harbin City of Heilongjiang Province. The registered capital of Joint Venture Company is RMB100,000,000. The Company and Heilongjiang Agricultural Machinery Company Limited will contribute RMB51,000,000 and RMB49,000,000 to Joint Venture Company respectively, representing 51% and 49% of the equity interest of Joint Venture Company respectively. The first installment of the capital contribution was RMB20,000,000. Joint Venture Company mainly engages in the research and development, manufacture and sales of agricultural equipment such as tractors, agricultural machineries and agricultural construction machineries. As at the date of the report, registration of Joint Venture Company is being handled.

## CODE ON CORPORATE GOVERNANCE PRACTICES

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

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the Reporting Period, the Company has adopted a code of conduct for securities transactions by its Directors and Supervisors in accordance with the required standards of conduct stipulated in the *Model Code for Securities Transactions by Directors of Listed Issuers* as set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry to all the Directors and Supervisors, the Company confirmed that all the Directors and Supervisors have complied with the Model Code.

## 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  
**FIRST TRACTOR COMPANY LIMITED**  
**Liu Dagong**  
*Chairman*

Luoyang, Henan Province, the PRC  
21 August 2009