



# 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  
2010



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 2010 (the “**Reporting Period**”) together with the comparative figures for the corresponding period in 2009. The condensed consolidated interim financial statements are unaudited, but have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

With reference to the authorization approved by the shareholders at the 2009 annual general meeting of the Company held on 11 June 2010, the Board recommends payment of an interim cash dividend of RMB0.12 per share for the six months ended 30 June 2010.

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

	Note	For the six months ended	
		2010	2009
		Unaudited	Unaudited
		RMB'000	RMB'000
<b>REVENUE</b>	4,5	<b>5,859,713</b>	5,268,952
Cost of sales		<b>(5,004,507)</b>	(4,532,844)
Gross profit		<b>855,206</b>	736,108
Other income and gains	5	<b>19,020</b>	42,642
Selling and distribution costs		<b>(196,450)</b>	(202,096)
Administrative expenses		<b>(315,264)</b>	(233,557)
Other operating expenses, net		<b>(36,709)</b>	(87,822)
Finance costs	6	<b>(10,639)</b>	(11,727)
Share of losses of associates		<b>(106)</b>	—
<b>PROFIT BEFORE INCOME TAX</b>	4,7	<b>315,058</b>	243,548
Income tax expense	8	<b>(52,645)</b>	(55,479)
<b>PROFIT FOR THE PERIOD</b>		<b>262,413</b>	188,069

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

For the six months ended 30 June 2010

	Note	For the six months ended 30 June	
		2010 Unaudited RMB'000	2009 Unaudited RMB'000
<b>PROFIT ATTRIBUTABLE TO:</b>			
– Equity holders of the Company		<b>261,732</b>	168,943
– Non-controlling interests		<b>681</b>	19,126
		<b>262,413</b>	188,069
<b>EARNINGS PER SHARE</b>			
<b>ATTRIBUTABLE TO</b>			
<b>THE EQUITY HOLDERS OF</b>			
<b>THE COMPANY</b>			
	10		
Basic		<b>RMB30.94 cents</b>	RMB19.97 cents
<b>DIVIDEND</b>			
	9	<b>101,508</b>	—

The notes from pages 11 to 45 are an integral part of these condensed consolidated interim financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30 June 2010*

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2010</b>	2009
	<b>Unaudited</b>	Unaudited
	<b>RMB'000</b>	RMB'000
<b>PROFIT FOR THE PERIOD</b>	<b>262,413</b>	188,069
<b>OTHER COMPREHENSIVE INCOME</b>		
Currency translation differences	(575)	3,286
Net loss on available-for-sale financial assets	(21,241)	(27)
Deferred income recognised	3,790	—
<b>OTHER COMPREHENSIVE (EXPENSE)/ INCOME FOR THE PERIOD, NET OF TAX</b>	<b>(18,026)</b>	3,259
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>244,387</b>	191,328
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:</b>		
— Equity holders of the Company	243,622	172,202
— Non-controlling interests	765	19,126
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>244,387</b>	191,328

The notes from pages 11 to 45 are an integral part of these condensed consolidated interim financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2010

		<b>30 June 2010</b>	31 December 2009
	<i>Note</i>	<b>Unaudited RMB'000</b>	Audited RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	<b>1,201,659</b>	1,176,405
Prepaid operating leases	12	<b>73,461</b>	76,689
Goodwill		<b>52,990</b>	52,990
Interests in associates		<b>11,590</b>	11,696
Available-for-sale financial assets		<b>190,203</b>	168,476
Loans receivable	13	<b>19,991</b>	135,278
Other receivables		<b>83,877</b>	39,084
Deferred income tax assets		<b>68,336</b>	59,243
<b>Total non-current assets</b>		<b>1,702,107</b>	1,719,861
<b>CURRENT ASSETS</b>			
Inventories		<b>690,319</b>	1,018,867
Trade and bills receivables	14	<b>2,506,055</b>	878,320
Loans receivable	13	<b>329,271</b>	255,624
Bills discounted receivable	15	<b>166</b>	147,415
Prepayments, deposits and other receivables	16	<b>567,010</b>	572,934
Tax recoverable		<b>1,727</b>	1,728
Financial assets at fair value through profit or loss		<b>105,121</b>	28,942
Held-to-maturity financial assets		<b>—</b>	10,140
Pledged bank balances	17	<b>405,430</b>	294,197
Cash and cash equivalents	17	<b>644,719</b>	915,181
Assets classified as held for sale	21	<b>591,536</b>	—
<b>Total current assets</b>		<b>5,841,354</b>	4,123,348

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

30 June 2010

		30 June 2010 Unaudited RMB'000	31 December 2009 Audited RMB'000
	Note		
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	18	<b>2,327,489</b>	1,670,441
Other payables and accruals	19	<b>396,765</b>	423,980
Customer deposits	20	<b>270,057</b>	296,246
Deposits by bank		<b>100,000</b>	—
Interest-bearing bank borrowings		<b>476,922</b>	143,000
Current income tax liabilities		<b>56,798</b>	62,570
Provisions		<b>106,585</b>	36,369
		<b>3,734,616</b>	2,632,606
Liabilities directly associated with assets classified as held for sale	21	<b>361,019</b>	—
<b>Total current liabilities</b>		<b>4,095,635</b>	2,632,606
<b>NET CURRENT ASSETS</b>		<b>1,745,719</b>	1,490,742
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>3,447,826</b>	3,210,603

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

30 June 2010

<i>Note</i>	<b>30 June 2010 Unaudited RMB'000</b>	31 December 2009 Audited RMB'000
<b>NON-CURRENT LIABILITIES</b>		
	<b>100,000</b>	—
	<b>102,169</b>	103,700
	<b>10,154</b>	13,109
	<b>75,674</b>	88,200
	<b>287,997</b>	205,009
	<b>3,159,829</b>	3,005,594
<b>NET ASSETS</b>		
<b>EQUITY</b>		
<b>Equity attributable to equity holders of the Company</b>		
	<b>845,900</b>	845,900
	<b>2,010,179</b>	1,867,818
	<b>101,508</b>	101,508
	<b>2,957,587</b>	2,815,226
	<b>202,242</b>	190,368
	<b>3,159,829</b>	3,005,594

The notes from pages 11 to 45 are an integral part of these condensed consolidated interim financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Unaudited														
	Attributable to the equity holders of the Company														
	Issued capital	Share premium	Capital reserve	Statutory surplus reserve	General surplus reserve	Reserve fund	Enterprise expansion fund	General statutory fund	Available-for-sale financial assets	Exchange reserve	Retained earnings	Proposed dividend	Total	Non-controlling interests	Total equity
Balance at 1 January 2010	845,900	1,539,938	(130)	137,539	64,744	-	-	5,464	70,758	(9,174)	58,679	101,508	2,815,226	190,368	3,005,584
<b>Comprehensive income</b>															
Profit for the period	-	-	-	-	-	-	-	-	-	-	261,732	-	261,732	681	262,413
<b>Other comprehensive income</b>															
Currency translation differences	-	-	-	-	-	-	-	-	-	(518)	-	-	(518)	(57)	(575)
Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	-	-	-	-	(21,382)	-	-	-	(21,382)	141	(21,241)
Deferred income recognised	-	-	3,790	-	-	-	-	-	-	-	-	-	3,790	-	3,790
<b>Total other comprehensive income</b>	-	-	3,790	-	-	-	-	-	(21,382)	(518)	-	-	(18,110)	84	(18,026)
<b>Total comprehensive income</b>	-	-	3,790	-	-	-	-	-	(21,382)	(518)	261,732	-	243,622	765	244,387
<b>Transactions with owners</b>															
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	(135)	(135)
Contributions from non-controlling shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	13,200	13,200
Acquisition of further interests from non-controlling shareholders	-	-	247	-	-	-	-	-	-	-	-	-	247	(1,956)	(1,709)
Final 2009 dividend declared	-	-	-	-	-	-	-	-	-	-	(101,508)	(101,508)	-	(101,508)	
Proposed 2010 interim dividend	-	-	-	-	-	-	-	-	-	-	(101,508)	101,508	-	-	
<b>Total transactions with owners</b>	-	-	247	-	-	-	-	-	-	-	(101,508)	-	(101,261)	11,109	(90,152)
Balance at 30 June 2010	845,900	1,539,938*	3,907*	137,539*	64,744*	-	-	5,464*	49,376*	(9,692)*	218,903*	101,508	2,957,587	202,242	3,159,829

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

For the six months ended 30 June 2009

	Unaudited														
	Attributable to the equity holders of the Company														
	Issued capital	Share premium	Capital reserve	Statutory surplus reserve	General surplus reserve	Reserve fund	Enterprise expansion fund	General and statutory fund	Available-for-sale financial assets	Exchange reserve	Retained earnings	Proposed dividend	Total	Non-controlling interests	Total equity
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance at 1 January 2009	845,900	1,539,938	-	113,519	64,744	3,590	2,573	5,145	24,546	(11,673)	(66,691)	42,235	2,564,886	177,551	2,742,437
<b>Comprehensive income</b>															
Profit for the period	-	-	-	-	-	-	-	-	-	-	168,943	-	168,943	19,126	188,069
<b>Other comprehensive income</b>															
Currency translation differences	-	-	-	-	-	-	-	-	-	3,286	-	-	3,286	-	3,286
Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	-	-	-	-	(27)	-	-	-	(27)	-	(27)
<b>Total other comprehensive income</b>	-	-	-	-	-	-	-	-	(27)	3,286	-	-	3,259	-	3,259
<b>Total comprehensive income</b>	-	-	-	-	-	-	-	-	(27)	3,286	168,943	-	172,202	19,126	191,328
<b>Transactions with owners</b>															
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,506)	(1,506)
Deemed loss on capital contribution from non-controlling shareholders	-	-	-	(62)	-	-	-	-	-	-	(4,737)	-	(4,799)	4,799	-
Final 2008 dividend declared	-	-	-	-	-	-	-	-	-	-	(42,235)	-	(42,235)	-	(42,235)
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(45,510)	(45,510)
<b>Total transactions with owners</b>	-	-	-	(62)	-	-	-	-	-	-	(4,737)	(42,235)	(47,094)	(42,217)	(89,311)
Balance at 31 June 2009	845,900	1,539,938*	-	113,457*	64,744*	3,590*	2,573*	5,145*	24,519*	(8,387)*	98,515*	-	2,689,934	154,460	2,844,454

\* These reserve accounts comprise the consolidated reserves of approximately RMB2,010,179,000 (six months ended 30 June 2009: approximately RMB1,844,094,000) in the condensed consolidated statement of financial position.

The notes from pages 11 to 45 are an integral part of these condensed consolidated interim financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2010

	For the six months ended 30 June	
	2010 Unaudited RMB'000	2009 Unaudited RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES - NET</b>	(169,286)	43,360
<b>CASH FLOWS FROM INVESTING ACTIVITIES - NET</b>	(343,042)	33,561
<b>CASH FLOWS FROM FINANCING ACTIVITIES - NET</b>	436,348	(126,301)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(75,980)	(49,380)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	1,143,119	1,044,213
Exchange (losses)/gains	(359)	3,286
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>1,066,780</b>	<b>998,119</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	976,639	998,119
Cash and cash equivalents and pledged bank balances for issuing bills payable and other banking facilities attributable to the assets of a disposal group classified as held for sale	90,141	—
	<b>1,066,780</b>	<b>998,119</b>

The notes from pages 11 to 45 are an integral part of these condensed consolidated interim financial statements.

## **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

30 June 2010

### **1. GENERAL INFORMATION**

First Tractor Company Limited (the “Company”) and its subsidiaries (collectively, the “Group”) are principally engaged in manufacture and sale of agricultural machinery, construction machinery, diesel engines, fuel injection pumps and fuel jets, and also engaged in loans, bills discounted and deposits services.

The Group’s principal operations are located in the People’s Republic of China (the “PRC”).

The Company is a limited liability company incorporated in the PRC. The address of its registered office is 154 Jian She Road, Luoyang, Henan Province, the PRC.

The Company’s shares are listed on The Stock Exchange of Hong Kong Limited.

The condensed consolidated interim financial information has been approved for issue by the Board of Directors on 20 August, 2010.

This condensed consolidated interim financial information has not been audited.

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

30 June 2010

### **2. BASIS OF PREPARATION**

This condensed consolidated interim financial information for the six months ended 30 June 2010 has been prepared in accordance with Hong Kong Accounting Standard 34 “Interim financial reporting”. The condensed consolidated interim financial information should be read in conjunction with the Group’s audited consolidated financial statements for the year ended 31 December 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards.

### **3. ACCOUNTING POLICIES**

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010:

HKFRS 3 (revised), ‘Business combinations’, and consequential amendments to HKAS 27, ‘Consolidated and separate financial statements’, HKAS 28, ‘Investment in associates’, and HKAS 31, ‘Interests in joint ventures’, are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

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

30 June 2010

### 3. ACCOUNTING POLICIES *(Continued)*

- (a) New and amended standards adopted by the Group *(Continued)*

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

As the Group has adopted HKFRS 3 (revised), it is required to adopt HKAS 27 (revised), 'consolidated and separate financial statements', at the same time. HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The adoption did not have any financial impact to the Group as there were no business acquisitions or disposals by the Group in the period.

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

30 June 2010

### 3. ACCOUNTING POLICIES *(Continued)*

- (b) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the Group
- HKFRIC-Int 17, 'Distributions of non-cash assets to owners' is effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.
  - 'Additional exemptions for first-time adopters' (Amendment to HKFRS 1) is effective for annual periods beginning on or after 1 January 2010. This is not relevant to the Group, as it is an existing HKFRS preparer.
  - HKAS 39 (Amendment), 'Eligible hedged items' is effective for annual period on or after 1 July 2009. That is not currently applicable to the Group, as it has no hedging.
  - HKFRS 2 (Amendment), 'Group cash-settled share-based payment transaction' is effective for annual periods beginning on or after 1 January 2010. This is not currently applicable to the Group, as it has no such share-based payment transactions.
  - First improvements to Hong Kong Financial Reporting Standards 2008 were issued in October 2008 by the HKICPA. The improvement related to HKFRS 5 "Non-current assets held for sale and discontinued operations" is effective for annual period on or after 1 July 2009.
  - Second improvements to Hong Kong Financial Reporting Standards 2009 were issued in May 2009 by the HKICPA. All improvements are effective in the financial year of 2010.

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

30 June 2010

### **4. SEGMENT INFORMATION**

The chief operating decision maker is identified as the Board of the Company. Management defines operating segments with reference to the Group's internal reports, and submits to the Board for assessment of results and allocation of resources.

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.

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

30 June 2010

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

The Board assesses the performance of the operating segments based on a measure of segment results. This measurement basis excludes the effect of non-recurring expenditure from operating segments. Other information provided, except as noted below to the Board is measured in a manner consistent with that in the condensed consolidated financial information.

Total assets excluded goodwill, available-for-sale financial assets, deferred income tax assets, financial assets at fair value through profit or loss and interests in associates, etc. These assets are managed on a central basis by the Group and which are part of the reconciliation to total balance sheet assets.

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 2010

### 4. SEGMENT INFORMATION (Continued)

The following table presents revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2010 and six months ended 30 June 2009, respectively:

For the six months ended 30 June 2010 (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	4,671,778	526,200	17,610	644,125	—	5,859,713
Intersegment revenue	355,382	49,680	9,136	400,358	(814,556)	—
Total	<u>5,027,160</u>	<u>575,880</u>	<u>26,746</u>	<u>1,044,483</u>	<u>(814,556)</u>	<u>5,859,713</u>
Result :						
Profit before income tax	<u>226,678</u>	<u>5,033</u>	<u>23,624</u>	<u>85,696</u>	<u>(25,973)<sup>1</sup></u>	<u>315,058</u>

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

30 June 2010

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

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

	Agricultural machinery <i>(RMB'000)</i>	Construction machinery <i>(RMB'000)</i>	Financial operations <i>(RMB'000)</i>	Diesel engines and fuel jets <i>(RMB'000)</i>	Unallocated and eliminations <i>(RMB'000)</i>	Consolidated <i>(RMB'000)</i>
Revenue:						
Third party	4,066,304	553,504	18,198	630,946	—	5,268,952
Intersegment revenue	<u>209,780</u>	<u>29,063</u>	<u>8,459</u>	<u>350,098</u>	<u>(597,400)</u>	<u>—</u>
Total	<u><u>4,276,084</u></u>	<u><u>582,567</u></u>	<u><u>26,657</u></u>	<u><u>981,044</u></u>	<u><u>(597,400)</u></u>	<u><u>5,268,952</u></u>
Result:						
Profit before income tax	<u><u>129,171</u></u>	<u><u>(32,859)</u></u>	<u><u>20,030</u></u>	<u><u>98,677</u></u>	<u><u>28,529<sup>2</sup></u></u>	<u><u>243,548</u></u>

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

30 June 2010

**4. SEGMENT INFORMATION (Continued)**

The following table presents segment assets of the Group's operating segments as at 30 June 2010 and 31 December 2009:

	Agricultural machinery <i>(RMB'000)</i>	Construction machinery <i>(RMB'000)</i>	Financial operations <i>(RMB'000)</i>	Diesel engines and fuel jets <i>(RMB'000)</i>	Unallocated and eliminations <i>(RMB'000)</i>	Consolidated <i>(RMB'000)</i>
Segment assets:						
At 30 June 2010 (unaudited)	<u>4,639,797<sup>3</sup></u>	<u>940,264<sup>3</sup></u>	<u>1,163,310</u>	<u>1,137,242</u>	<u>(337,152)</u>	<u>7,543,461</u>
At 31 December 2009 (audited)	<u>3,093,103</u>	<u>738,789</u>	<u>840,060</u>	<u>944,490</u>	<u>226,767</u>	<u>5,843,209</u>

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

30 June 2010

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

Reconciliation for earnings before interest, tax, depreciation and amortisation to profit before income tax is as follows:

	For the six months ended	
	30 June	
	2010	2009
	Unaudited	Unaudited
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings before interest, tax, depreciation and amortisation	<b>372,003</b>	279,871
Depreciation	<b>(58,298)</b>	(58,332)
Amortisation for prepaid operating leases	<b>(875)</b>	(220)
Corporate expenses, net	<b>(260)</b>	(114)
Operating profit	<b>312,570</b>	221,205
Interest, dividend and investment income	<b>13,233</b>	8,238
Gain on disposal of subsidiaries	—	25,832
Finance costs	<b>(10,639)</b>	(11,727)
Share of losses of associates	<b>(106)</b>	—
<b>Profit before income tax</b>	<b>315,058</b>	243,548

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

30 June 2010

**4. SEGMENT INFORMATION (Continued)**

Segment assets are summarised as below:

	<b>30 June 2010 Unaudited RMB'000</b>	31 December 2009 Audited RMB'000
Segment assets as allocated by business segments	<b>7,012,137</b>	5,398,902
<b>Unallocated assets:</b>		
Goodwill	<b>52,990</b>	52,990
Available-for-sale financial assets	<b>190,203</b>	168,476
Deferred income tax assets	<b>68,336</b>	59,243
Financial assets at fair value through profit or loss	<b>105,121</b>	28,942
Interests in associates	<b>11,590</b>	11,696
Others	<b>103,084</b>	122,960
<b>Total assets as per consolidated statement of financial position</b>	<b>7,543,461</b>	5,843,209

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

30 June 2010

### 4. SEGMENT INFORMATION (Continued)

- <sup>1</sup> *The profit for each operating segment does not include net fair value gains on financial assets at fair value through profit or loss (approximately RMB1,972,000), gain on disposal of financial assets at fair value through profit or loss (approximately RMB404,000). The profit/(loss) before tax for the above operating segments include profit from inter-segment sales (approximately RMB28,349,000).*
  
- <sup>2</sup> *The profit for each operating segment does not include net fair value gains on financial assets at fair value through profit or loss (approximately RMB2,702,000), dividend income from listed investments (approximately RMB314,000), gain on disposal of financial assets at fair value through profit or loss (approximately RMB871,000) and gain on disposal of subsidiaries (approximately RMB25,832,000). The profit/(loss) before income tax for the above operating segments include profit from inter-segment sales (approximately RMB1,190,000).*
  
- <sup>3</sup> *Includes approximately RMB591,536,000 of assets related to disposal group classified as held for sale.*

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

30 June 2010

### 5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold, net of trade discounts and returns, and excludes sales taxes and intra-group transactions.

An analysis of revenue, other income and gains is as follows:

	For the six months ended	
	30 June	
	2010	2009
	Unaudited	Unaudited
	RMB'000	RMB'000
<b>Revenue</b>		
Sale of goods	<b>5,842,103</b>	5,250,754
Interest income from financial operation	<b>17,610</b>	18,198
	<b>5,859,713</b>	5,268,952
<b>Other income</b>		
Bank interest income	<b>9,133</b>	4,247
Value-added tax refund	—	667
Rental income	<b>124</b>	4,689
Dividend income from listed investments	<b>4</b>	—
Others	<b>5,309</b>	3,535
	<b>14,570</b>	13,138

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

30 June 2010

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

	<b>For the six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>Unaudited</b>	Unaudited
	<b>RMB'000</b>	RMB'000
<b>Other gains</b>		
Gain on disposal of available-for-sale financial assets	<b>1,653</b>	—
Fair value gains on financial assets at fair value through profit or loss, net	<b>1,691</b>	2,702
Gain on disposal of financial assets at fair value through profit or loss ,net	<b>752</b>	871
Gain on disposal of subsidiaries	—	25,832
Others	<b>354</b>	99
	<b>4,450</b>	29,504
	<b>19,020</b>	42,642

**6. FINANCE COSTS**

	<b>For the six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>Unaudited</b>	Unaudited
	<b>RMB'000</b>	RMB'000
Interest on bank and other loans	<b>10,639</b>	11,727

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

30 June 2010

**7. PROFIT BEFORE INCOME TAX**

Profit before income tax is arrived at after charging/(crediting) of the following:

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2010</b>	2009
	<b>Unaudited</b>	Unaudited
	<b>RMB'000</b>	RMB'000
Provision for impairment of trade receivables, net	<b>16,870</b>	84,549
Depreciation of property, plant and equipment	<b>58,298</b>	58,332
Interest expenses on financial operation	<b>1,740</b>	1,408
Amortisation of prepaid operating leases	<b>875</b>	220
Provision for impairment of other receivables, net	<b>15,398</b>	18
Gain on disposal of available-for-sale financial assets	<b>(1,653)</b>	—
Dividend income from listed investments	<b>(4)</b>	—
Reversal of impairment of loans receivable, net	<b>(5,061)</b>	—
Gain on disposal of subsidiaries	—	(25,832)
Interest income from financial operations	<b>(17,610)</b>	(18,198)
Gross rental income	<b>(124)</b>	(4,689)
Bank interest income	<b>(9,133)</b>	(4,247)
Provision for/(reversal of) impairment of inventories, net	<b>9,946</b>	(4,136)
Fair value gain on financial assets at fair value through profit or loss, net	<b>(1,691)</b>	(2,702)
Gain on disposal of financial assets at fair value through profit or loss, net	<b>(752)</b>	(871)
Gain on disposal of property, plant and equipment, net	<b>(1,893)</b>	(534)

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

30 June 2010

**8. INCOME TAX EXPENSE**

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2010</b>	2009
	<b>Unaudited</b>	Unaudited
	<b>RMB'000</b>	RMB'000
Group		
Current — PRC corporate income tax	<b>61,738</b>	67,238
Deferred income tax	<b>(9,093)</b>	(11,759)
Total income tax charge for the period	<b>52,645</b>	55,479

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 2010 and 2009.

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 2009: 15% to 25%) on their estimated assessable profits for the period, based on existing legislation, interpretations and practices in respect thereof.

Profits tax of the subsidiaries operating outside the PRC are subject to the rates applicable within the jurisdiction in which they operate. 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 2009: Nil).

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

30 June 2010

### **9. DIVIDEND**

A dividend that relates to the period to 31 December 2009 and that amounts to RMB101,508,000 was approved on the Annual General Meeting held on 11 June 2010, which will be paid on 11 August 2010.

In addition, an interim dividend of RMB12 cents per share (six months ended 30 June 2009: Nil) was proposed by the Board of Directors on 20 August 2010. This interim dividend, amounting to RMB101,508,000 (six months ended 30 June 2009: Nil), has not yet been recognised as a liability in this interim condensed consolidated financial statements.

### **10. EARNINGS PER SHARE**

The calculation of basic earnings per share for the six months ended 30 June 2010 is based on the profit for the period attributable to equity holders of the Company of approximately RMB261,732,000 (six months ended 30 June 2009: approximately RMB168,943,000) and the weighted average of 845,900,000 (six months ended 30 June 2009: 845,900,000) ordinary shares in issue during the period.

Diluted earnings per share amounts for both periods ended 30 June 2010 and 2009 have not been disclosed as no diluting events existed during both periods.

### **11. PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2010, the Group acquired construction in progress and items of property, plant and equipment in an aggregate amount of approximately RMB173,713,000 (six months ended 30 June 2009: approximately RMB23,700,000) and disposed of items of property, plant and equipment with an aggregate net book value of approximately RMB8,015,000 (six months ended 30 June 2009: approximately RMB4,800,000) and resulted in a net gain on disposal of approximately RMB1,893,000 (six months ended 30 June 2009: gain on disposal of approximately RMB534,000). 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 2009: Nil).

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

30 June 2010

### 12. PREPAID OPERATING LEASES

The leasehold lands are held under medium term leases and are situated in the PRC.

### 13. LOANS RECEIVABLE

	Notes	30 June 2010			31 December 2009		
		Gross Unaudited RMB'000	Impairment allowances Unaudited RMB'000	Net Unaudited RMB'000	Gross Audited RMB'000	Impairment allowances Audited RMB'000	Net Audited RMB'000
Loans to Holding	(a)	314,800	5,380	309,420	314,800	5,380	309,420
Loans to related companies	(b)	19,960	3,423	16,537	76,396	3,393	73,003
Loans to customers	(c)	24,717	1,412	23,305	8,885	406	8,479
		<b>359,477</b>	<b>10,215</b>	<b>349,262</b>	400,081	9,179	390,902
Portion classified as current assets		<b>(338,280)</b>	<b>(9,009)</b>	<b>(329,271)</b>	(261,016)	(5,392)	(255,624)
Long term portion		<b>21,197</b>	<b>1,206</b>	<b>19,991</b>	139,065	3,787	135,278

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

30 June 2010

### 13. LOANS RECEIVABLE (Continued)

Notes:

- (a) The loans to the immediate 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 3.98% to 4.50% (31 December 2009: 3.98% to 4.50%) per annum and repayable within one to five years (31 December 2009: 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 4.43% to 6.54% (31 December 2009: 4.43% to 7.25%) per annum and are repayable within one year (31 December 2009: within one year).
- (c) The loans to customers represent the loans granted to certain customers as permitted by the People's Bank of China (the "PBOC").

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

	<b>30 June 2010 Unaudited RMB'000</b>	31 December 2009 Audited RMB'000
Repayable:		
Within three months	<b>72,680</b>	2,405
Within one year but over three months	<b>265,601</b>	258,611
Within five years but over one year	<b>20,713</b>	138,472
Over five years	<b>483</b>	593
	<b>359,477</b>	400,081

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

30 June 2010

### 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 reporting date, based on invoice date, and net of provisions, is as follows:

	<b>30 June 2010 Unaudited RMB'000</b>	31 December 2009 Audited RMB'000
Within 90 days	<b>2,048,695</b>	470,153
91 days to 180 days	<b>386,433</b>	356,511
181 days to 365 days	<b>31,073</b>	36,771
1 to 2 years	<b>39,854</b>	14,751
Over 2 years	—	134
	<b>2,506,055</b>	878,320

As at 30 June 2010, no trade receivables (net of provision) due from associates are included in the trade and bills receivables of the Group. (31 December 2009: approximately RMB1,369,000).

As at 30 June 2010, included in the trade and bills receivables of the Group are trade receivables (net of provision) due from the Holding of approximately RMB3,194,000 (31 December 2009: approximately RMB6,871,000).

As at 30 June 2010, certain of the Group's bills receivables of approximately RMB98,311,000 (31 December 2009: approximately RMB18,000,000) were pledged for the issuance of bills payables.

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

30 June 2010

**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 RMB166,000 (31 December 2009: approximately RMB5,843,000) related to the Holding.

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

	<b>30 June 2010 Unaudited RMB'000</b>	31 December 2009 Audited RMB'000
Maturing:		
Within three months	<b>166</b>	21,560
Within six months	—	127,355
	<b>166</b>	148,915
Less: Impairment allowance for bills discounted receivable	—	(1,500)
	<b>166</b>	147,415

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

30 June 2010

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

Other receivables include a balance due from the Holding of approximately RMB106,449,000 (31 December 2009: approximately RMB114,925,000), and such balance is unsecured, interest-free and have no fixed terms of repayment.

**17. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES**

	<b>30 June 2010 Unaudited RMB'000</b>	31 December 2009 Audited RMB'000
Cash and bank balances - Note (a)	<b>571,209</b>	848,922
Mandatory reserve deposits with the PBOC- Note (b)	<b>73,510</b>	56,259
Time deposits	<b>405,430</b>	304,197
	<b>1,050,149</b>	1,209,378
Less: Pledged bank balances for bills repayable	<b>(227,606)</b>	(294,197)
Less: Pledged bank balances for other banking facilities	<b>(177,824)</b>	—

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

30 June 2010

**17. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES (Continued)**

	<b>30 June 2010 Unaudited RMB'000</b>	31 December 2009 Audited RMB'000
Cash and cash equivalents in statement of financial position — <i>Note (a)</i>	<b>644,719</b>	915,181
Less: Non-pledged time deposit with maturity within one year but over three months when acquired	—	(10,000)
Less: Mandatory reserve deposits with the PBOC	<b>(73,510)</b>	(56,259)
Add: Pledged bank balances for the issuance of bills payable — <i>Note (c)</i>	<b>227,606</b>	294,197
Add: Pledged bank balances for other banking facilities — <i>Note (c)</i>	<b>177,824</b>	—
Cash and cash equivalents in the consolidated statement of cash flow	<b>976,639</b>	1,143,119

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

30 June 2010

### **17. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES (Continued)**

Notes:

- (a) *The balance included FTGF's placements with the PBOC and other banks of approximately RMB21,316,000 (31 December 2009: approximately RMB70,357,000) and approximately RMB273,008,000 (31 December 2009: approximately RMB176,009,000), 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 and other banking facilities, they are included in cash and cash equivalents in the condensed consolidated statement of cash flows.*

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

30 June 2010

**18. TRADE AND BILLS PAYABLES**

An aged analysis of trade and bills payables as at the reporting date, based on invoice date, is as follows:

	<b>30 June 2010 Unaudited RMB'000</b>	31 December 2009 Audited RMB'000
Within 90 days	<b>2,081,711</b>	1,229,411
91 days to 180 days	<b>140,295</b>	224,913
181 days to 365 days	<b>21,008</b>	84,531
1 to 2 years	<b>40,406</b>	59,276
Over 2 years	<b>44,069</b>	72,310
	<b>2,327,489</b>	1,670,441

The Group's bills payables amounting to approximately RMB770,340,000 (31 December 2009: approximately RMB330,103,000) are secured by the pledge of certain of the Group's deposits amounting to approximately RMB227,606,000 (31 December 2009: approximately RMB294,197,000).

Included in the trade and bills payables of the Group are trade payables due to the Holding of approximately RMB9,928,000 (31 December 2009: approximately RMB6,645,000).

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

30 June 2010

**19. OTHER PAYABLES AND ACCRUALS**

Included in other payables and accruals of the Group are amounts due to the Holding and non-controlling shareholders of subsidiaries of the Group of approximately RMB42,179,000 (31 December 2009: approximately RMB7,571,000) and approximately RMB4,194,000(31 December 2009: approximately RMB337,000), respectively. Such balances are unsecured, interest-free and have no fixed terms of repayment.

**20. CUSTOMER DEPOSITS**

	<b>30 June 2010 Unaudited RMB'000</b>	31 December 2009 Audited RMB'000
Deposits from the Holding	<b>119,035</b>	92,627
Deposits from associates	<b>36</b>	151
Deposits from fellow subsidiaries and associates of the Holding	<b>127,596</b>	185,790
Deposits from customers	<b>23,390</b>	17,678
	<b>270,057</b>	296,246

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

30 June 2010

### 20. CUSTOMER DEPOSITS (Continued)

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

	<b>30 June 2010 Unaudited RMB'000</b>	31 December 2009 Audited RMB'000
Repayable:		
On demand	<b>263,394</b>	260,446
Within three months	<b>2,800</b>	35,500
Within one year but over three months	<b>3,600</b>	300
Over one year	<b>263</b>	—
	<b>270,057</b>	296,246

### 21. ASSETS AND LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

In 2010, the Group entered into the Equity Transfer Agreements with China Yituo Group Corporation Limited to dispose four of its subsidiaries. The principal activities of the subsidiaries are manufacture and sales of road construction machineries. Such transaction has not been completed as of 30 June 2010.

In 2010, the Group entered into the Sale and Purchase Agreements with Luoyang Zhongshou Machinery & Equipment Company to dispose part of its assets related to the harvester manufacturing business. Such transaction has not been completed as of 30 June 2010.

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

30 June 2010

**21. ASSETS AND LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE (Continued)**

The major class of assets and liabilities in the disposal group as at 30 June 2010 are as follows:

	<b>Carrying amounts before elimination Unaudited RMB'000</b>	<b>Intra-group eliminations Unaudited RMB'000</b>	<b>Carrying amounts after elimination Unaudited RMB'000</b>
<b>Assets classified as held for sale:</b>			
Property, plant and equipment	82,146	—	<b>82,146</b>
Prepaid operating leases	2,352	—	<b>2,352</b>
Interests in subsidiaries	30,000	(30,000)	—
Inventories	266,973	(1,111)	<b>265,862</b>
Trade and bills receivables	128,137	(7,410)	<b>120,727</b>
Prepayments, deposits and other receivables	30,395	(87)	<b>30,308</b>
Pledged bank balances	66,043	—	<b>66,043</b>
Cash and cash equivalents	115,063	(90,965)	<b>24,098</b>
<b>Total assets of the disposal group</b>	<b>721,109</b>	<b>(129,573)</b>	<b>591,536</b>

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

30 June 2010

**21. ASSETS AND LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE (Continued)**

	Carrying amounts before elimination Unaudited RMB'000	Intra-group eliminations Unaudited RMB'000	Carrying amounts after elimination Unaudited RMB'000
<b>Liabilities directly associated with assets classified as held for sale:</b>			
Trade and bills payables	394,150	(94,867)	<b>299,283</b>
Other payables and accruals	105,740	(60,022)	<b>45,718</b>
Current income tax liabilities	2,106	—	<b>2,106</b>
Interest-bearing bank borrowings	28,500	(28,500)	—
Provisions	13,912	—	<b>13,912</b>
<b>Total liabilities of the disposal group</b>	<b>544,408</b>	<b>(183,389)</b>	<b>361,019</b>
<b>Total net assets of the disposal group</b>	<b>176,699</b>	<b>53,818</b>	<b>230,517</b>

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

30 June 2010

### 22. CONTINGENT LIABILITIES

As at 30 June 2010, the Company entered into the trade credit agreements (the “**Trade Credit Agreements**”) with Bank of Communications Co., Ltd., China Everbright Bank and China Construction Bank Corporation (Henan Branch) (the “**Three Banks**”) respectively for the purpose of cooperation in trade facilities. Pursuant to the Trade Credit Agreements, the Three Banks agreed to grant to the Company an aggregate trade credit lines of RMB900,000,000 (the “**Trade Credit Line**”). The Trade Credit Line shall be specifically used by the dealers recommended by the Company or its authorized agents for applying to the Three Banks for the issuance of banks’ acceptance bills for the purpose of purchasing products such as agricultural and construction machineries from the Company or its authorized agents. In return, the Company or its authorized agents shall provide guarantees in the form of an undertaking letter or agreement setting out the legal obligation for the Company’s performance of its repurchase guarantee. As at 30 June 2010, the Company utilized in aggregate RMB527,610,000 out of the Trade Credit Line.

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

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

30 June 2010

**23. CAPITAL COMMITMENTS**

The Group had the following capital commitments as at the reporting date:

	<b>30 June 2010 Unaudited RMB'000</b>	31 December 2009 Audited RMB'000
Contracted, but not provided for :		
Purchase of plant and machinery	<b>27,787</b>	47,710
Acquisition of a subsidiary	<b>5,002</b>	5,002
	<b>32,789</b>	52,712
Authorised, but not contracted for :		
Purchase of plant and machinery	<b>512,563</b>	914,683
	<b>545,352</b>	967,395

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

30 June 2010

### 24. 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	
	2010	2009
	Unaudited	Unaudited
	RMB'000	RMB'000
Sales of raw materials, finished goods and components	<b>250,257</b>	256,983
Purchases of raw materials and components	<b>658,963</b>	587,579
Purchases of utilities	<b>62,485</b>	52,732
Fees paid for welfare and support services	<b>16,494</b>	17,966
Purchases of transportation services	<b>36,788</b>	23,822
Research and development expenses paid	<b>24,238</b>	8,575
Fees paid for the use of land	<b>11,187</b>	5,980
Fees paid for the use of a trademark	<b>12,510</b>	7,110

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

30 June 2010

**24. 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)

	<b>For the six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>Unaudited</b>	Unaudited
	<b>RMB'000</b>	RMB'000
Rentals paid in respect of:		
Building	<b>3,354</b>	1,002
Plant and machinery	<b>463</b>	92
Rental income received in respect of buildings	<b>2,381</b>	4,689
Disposal of property, plant and equipment	<b>2,458</b>	—
Purchases of plant and machinery	<b>50,570</b>	28
Interest income and discounted bills charges	<b>9,902</b>	4,522
Interest paid for customer deposits	<b>756</b>	483
Service charge for a guarantee	<b>78</b>	—

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 2010

### 24. RELATED PARTY TRANSACTIONS (Continued)

- (b) Other transactions with related parties

#### *Designated deposits and designated loans*

As at 30 June 2010, the Holding placed an aggregate amount of approximately RMB67,000,000 (31 December 2009: approximately RMB67,500,000) with FTGF to provide entrusted loans to the fellow subsidiaries and an associate of the Holding.

As at 30 June 2010, Yituo International Commerce Company Limited, a subsidiary of the Holding placed a designated deposit of approximately RMB12,500,000 (31 December 2009: Nil) 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.

- (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 reporting 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 reporting date are included in notes 13, 14 and 20 to the interim condensed consolidated financial statements, respectively.

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

30 June 2010

### 24. RELATED PARTY TRANSACTIONS (Continued)

- (c) Outstanding balances with related parties (Continued)
- (iii) Details of the Group's amounts due from/to with its related companies (fellow subsidiaries and associates of the Holding) as at the reporting date are disclosed in notes 13 and 20.
- (iv) Details of the Group's amounts due to the non-controlling shareholders as at the reporting date are disclosed in note 19 to the interim condensed consolidated financial statements.
- (d) Compensation of key management personnel of the Group

	For the six months ended	
	30 June	
	2010	2009
	Unaudited	Unaudited
	RMB'000	RMB'000
Short term employee benefits	718	706
Post-employment benefits	144	141
Total compensation paid/payable to key management personnel	862	847

### 25. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 3 August 2010, the Company and China Yituo Group Corporation Limited entered into the Sale and Purchase Agreement, pursuant to which the Company has conditionally agreed to purchase, and China Yituo Group Corporation Limited has conditionally agreed to sell, 51% equity interest in Luoyang Tractors Research Company Limited (a wholly owned subsidiary of China Yituo Group Corporation Limited), at an initial cash consideration of approximately RMB150,170,000. Up to the date of approval of this financial statements, the transaction is still in progress.

## OPERATION REVIEW

During the Reporting Period, the State continued to adopt the proactive fiscal policy and moderately loose monetary policy. The overall national economy took on a healthy development trend with a year-on-year increase in the gross domestic products of 11.1%. Thanks to the positive impacts brought by the State's further strengthening, supporting and preferential agricultural policies, the agricultural machinery industry experienced comparatively rapid growth as a whole. According to the data of the nationwide tractor industry, the sales revenue of the tractor industry saw a year-on-year increase of 11.3 % during the Reporting Period, among which the sales volume of large and medium tractors recorded a year-on-year increase of 14.9% and the sales volume of small wheeled tractors recorded a year-on-year decrease of 6.3%. Benefiting from the impact brought by the implementation of the State's RMB4 trillion investment scheme, the construction machinery industry experienced high-speed growth and the sales volume of the major construction machinery products increased significantly as compared with that in the corresponding period last year. According to the data of the construction machinery industry, the sales volumes of excavators, road rollers, bulldozers and forklifts recorded a year-on-year increase of 101.2%, 99.6%, 84.5% and 74%, respectively.

## OPERATION REVIEW (CONTINUED)

During the Reporting Period, the Group steadily pushed forward technology renovation and optimized product mix through strengthening the marketing of the agricultural machinery projects. In particular, the market competitiveness of large and medium wheeled tractors has been improving; diesel engines achieved an overall upgrade in National II and Euro III technical standards and their competitiveness was consolidated and enhanced through differentiated technology research and development and increased efforts in technology innovation; the sales volume of the major products of the construction machinery business saw a considerable increase as a result of the overall planning and allocation of marketing resources. During the Reporting Period, the Group sold large and medium tractors in aggregate of 44,709 units, representing a year-on-year increase of 20.2%, among which includes large wheeled tractors of 26,237 units, representing a year-on-year increase of 12.7%; medium wheeled tractors of 16,594 units, representing a year-on-year increase of 34.5%; crawler tractors of 1,878 units, representing a year-on-year increase of 19.5%; small wheeled tractors of 18,050 units, representing a year-on-year decrease of 19.3%, and agricultural machinery tools of 5,220 units, representing a year-on-year increase of 17.4%. Due to the combined effect of the increase in the sales volume of large and medium tractors and the significant decrease in the sales volume of the harvesting machinery business, the Group sold diesel engines of 82,334 units, basically unchanged as compared with that in the corresponding period last year. In respect of the construction machinery business, the sales volumes of road rollers (excluding the sales volume of the YTO (Luoyang) Lutong Construction Machinery Co., Ltd. (一拖(洛陽)路通工程機械有限公司) (“**Lutong Company**”) in the corresponding period last year), large excavators, bulldozers, forklifts and mining trucks achieved year-on-year increases of 121.5%, 94%, 31%, 135% and 247%, respectively. During the Reporting Period, the Group’s exports still saw a decrease as compared with that in the corresponding period last year, among which the exports of all types of the agricultural machineries and construction machineries were 1,361 units and 150 units, representing year-on-year decreases of 1.8% and 20.6% respectively. The revenue from the exports of the Group amounted to USD 23.6 million, representing a year-on-year decrease of 11.9%. During the Reporting Period, the Group recorded operating revenue of RMB5,859,713,000, representing a year-on-year increase of 11.2%; the profit attributable to equity holders of the parent amounted to RMB261,732,000, representing a year-on-year increase of 54.9%, with earnings per share of RMB30.9 cents.

## ANALYSIS OF OPERATING RESULTS

### Segment results

By segment	Operating revenue				Percentage change in external revenue (%)	Profit before tax		
	As at 30 June 2010 (RMB'000)		As at 30 June 2009 (RMB'000)			As at 30 June 2010 (RMB'000)	As at 30 June 2009 (RMB'000)	Percentage change
	Segment revenue	Including: external revenue	Segment revenue	Including: external revenue		2010	2009	%
		revenue		revenue				
Agricultural machinery business	5,027,160	4,671,778	4,276,084	4,066,304	14.9	226,678	129,171	75.5
Construction machinery business	575,880	526,200	582,567	553,504	-4.9	5,033	(32,859)	-
Engine machinery business	1,044,483	644,125	981,044	630,946	2.1	85,696	98,677	-13.2
Financial business	26,746	17,610	26,657	18,198	-3.2	23,624	20,030	17.9
Unallocated and eliminations	(814,556)	-	(597,400) <sup>(Note 1)</sup>	-	-	(25,973)	28,529 <sup>(Note 2)</sup>	-
<b>Total</b>	<b>5,859,713</b>	<b>5,859,713</b>	<b>5,268,952</b>	<b>5,268,952</b>	<b>11.2</b>	<b>315,058</b>	<b>243,548</b>	<b>29.4</b>

Note 1: Include profits such as investment gains which were unallocated to the business segments and eliminations of intra-group transactions.

Note 2: Mainly from the net investment gain from the disposals of the equity interests in Zhenjiang Huachen Huatong Road Machinery Co., Ltd. (鎮江華華通路面機械有限公司) ("ZHHRM") and Zhenjiang Huatong Aran Machinery Co., Ltd. (鎮江華通阿倫機械有限公司) ("ZHAM"), subsidiaries of the Company, in the first half of 2009, of approximately RMB25,832,000.

After excluding the operating revenues from ZHHRM, ZHAM and Lutong Company for the corresponding period last year, the revenue from the construction machinery business recorded a year-on-year increase of 50.7%.

## **COST OF SALES**

During the Reporting Period, with the increase in product sales, the Group's cost of sales increased 10.4% year-on-year, mainly due to the Group's efforts in implementing cost control plan and increasing centralized procurement. The increase in cost of sales was less than the increase in operating revenue.

## **GROSS PROFIT AND GROSS PROFIT MARGIN**

During the Reporting Period, the gross profit of the Group was RMB855,206,000, representing a year-on-year increase of 16.2%, and the consolidated gross profit margin was 14.6%, up 0.6 percentage points as compared with that in the corresponding period last year, among which the gross profit margins of the agricultural machinery business, construction machinery business and engine machinery business increased by 0.2 percentage points, 2.3 percentage points and 0.2 percentage points, respectively. The increase was mainly due to the increase in the sales volume of the Group and the adjustment in product mix.

## **OTHER INCOME AND GAINS**

During the Reporting Period, the Group's other income and gains amounted to RMB19,020,000, representing a year-on-year decrease of 55.4%, mainly attributable to the net investment gain of RMB25,832,000 from the disposals of the equity interests in ZHHRM and ZHAM by the Company in the corresponding period last year.

## **EXPENSES DURING THE REPORTING PERIOD**

- (1) The Group's selling costs for the Reporting Period amounted to RMB196,450,000, representing a year-on-year decrease of RMB5,646,000 or 2.8%, which was mainly due to the Group's enhanced management on controllable costs. Except for the slight increases in the sales service fees and sales taxes, other expenses recorded decreases of different levels.
- (2) The Group's administrative expenses for the Reporting Period was RMB315,264,000, representing a year-on-year increase of RMB81,707,000 or 35%. Such an increase was mainly because the Group had put more efforts in the research and development of new products and technologies during the Reporting Period, leading to an increase in the research and development costs of RMB168,110,000, representing a year-on-year increase of RMB72,530,000.

## EXPENSES DURING THE REPORTING PERIOD (CONTINUED)

- (3) The Group's finance costs for the Reporting Period amounted to RMB10,639,000, representing a year-on-year decrease of RMB1,088,000 or 9.3%, which was mainly because the Group, by optimizing its financing structure, increased the use of bills, thereby effectively reducing the funding cost.
- (4) The Group's other expenses for the Reporting Period amounted to RMB36,709,000, representing a year-on-year decrease of RMB51,113,000 or 58.2%, which was mainly due to the improvement in the ageing structure of accounts receivable and reduction of accounting and drawing of reserves through the Group's enhanced effective management on accounts receivable.

## INCOME TAX

During the Reporting Period, the Group's income tax expenses amounted to RMB52,645,000, representing a year-on-year decrease of RMB2,834,000. The income tax rates of the Company and every subsidiary remained unchanged. The decrease in the income tax expenses was primarily due to the profit from the construction machinery business of the Group during the Reporting Period being utilized to make up the losses recorded in previous years, leading to a decrease in the taxable income of the Group.

## ASSETS AND LIABILITIES

Items	As at	As at	Increase/ Decrease (RMB'000)	Percentage change (%)
	30 June 2010 (RMB'000)	31 December 2009 (RMB'000)		
Trade and bills receivables	<b>2,626,782</b> <i>Note</i>	878,320 <i>Note</i>	1,748,462	199.1
Inventories	<b>956,181</b> <i>Note</i>	1,018,867 <i>Note</i>	-62,686	-6.2
Trade and bills payables	<b>2,626,772</b>	1,670,441	956,331	57.3
Bank borrowings	<b>576,922</b>	143,000	433,922	303.4

Note: Include the assets to be disposed as held by the Group.

## ASSETS AND LIABILITIES (CONTINUED)

- (1) **Trade and bills receivables:** As at 30 June 2010, the trade and bills receivables of the Group increased by RMB1,748,462,000 as compared with that in the beginning of the Reporting Period, among which the trade receivables increased by RMB875,739,000 as compared with that in the beginning of the Reporting Period, which was mainly due to the delay in payment of the State's subsidy for purchase of agricultural machineries. Trade receivables increased by RMB183,107,000 as compared with that in the corresponding period last year. The turnover of trade receivables was 34 days, which is 3 days faster than that in the corresponding period last year.
- (2) **Inventories:** Taking into account the effect of the assets to be disposed as held by the Group, the actual inventories of the Group recorded a decrease of 6.2% as compared with that in the beginning of the Reporting Period, mainly due to the effective improvement in the inventory structure as a result of the enhanced inventory management by the Group. The turnover of the inventories was 38 days, which is 1 day faster than that in the corresponding period last year.
- (3) **Trade and bills payables:** As at 30 June 2010, the Group's trade and bills payables increased by RMB956,331,000 as compared with that in the beginning of the Reporting Period, of which, the increase in trade payables was RMB389,507,000, which was lower than that in the corresponding period last year. The increase was mainly due to (i) increase in purchases of raw materials as a result of the growth of the Group's product sales; and (ii) extension of the credit period to the Group in respect of the amounts due to the suppliers pursuant to the mutual understanding on the strategic cooperation reached between the Group and its suppliers in view of the delayed sales payment for the agricultural machinery projects and with a view to seizing market opportunities. The bills payables increased by RMB566,824,000, which was mainly because the Group used more bills so as to take full advantage of bills settlement.
- (4) **Bank borrowings:** During the Reporting Period, the Group obtained more bank borrowings to ease the capital pressure posted by the deferred payment of the State's subsidy for purchase of agricultural machinery products. As at 30 June 2010, the Group's long-term and short-term bank borrowings amounted to RMB100,000,000 and RMB476,922,000 respectively, representing year-on-year increases of RMB100,000,000 and RMB333,922,000, respectively.

## FINANCIAL RATIOS

Items	Basis of calculation	As at	As at
		30 June 2010	31 December 2009
Gearing ratio	Total liabilities/Total assets x 100%	<b>58.11%</b>	48.56%
Current ratio	Current assets/Current liabilities	<b>1.43</b>	1.58
Quick ratio	(Current assets – Inventories)/ Current liabilities	<b>1.19</b>	1.19
Debt equity ratio	Total liabilities/ Shareholders' equity <sup>Note</sup> x 100%	<b>148.22%</b>	100.80%

Note: Shareholders' equity excludes minority interest

As at 30 June 2010, the gearing ratio of the Group was 58.11%, representing a year-on-year increase of 9.55 percentage points, which was mainly due to the increase in borrowings, etc.

## PLEDGE OF ASSETS

As at 30 June 2010, none of the Group's buildings and machineries were pledged (2009: RMB41,799,000) to secure the bank loans granted to the Group.

As at 30 June 2010, certain of the Group's prepaid land premium with the net book value of approximately RMB6,367,000 (2009: RMB6,436,000) were pledged to secure bank loans granted to the Group.

As at 30 June 2010, the Group's deposits of RMB227,606,000 (2009: RMB294,197,000) were pledged to secure the Group's bills payables of RMB770,340,000 (2009: RMB330,103,000).

## CONTINGENT LIABILITIES

During the Reporting Period, the Company entered into the trade credit agreements (the “**Trade Credit Agreements**”) with Bank of Communications Co., Ltd., China Everbright Bank and China Construction Bank Corporation (Henan Branch) (the “**Three Banks**”) respectively for the purpose of cooperation in trade facilities. Pursuant to the Trade Credit Agreements, the Three Banks agreed to grant to the Company in total trade credit lines of RMB900 million (the “**Trade Credit Line**”). The Trade Credit Line shall be specifically used by the dealers recommended by the Company or its authorized agents for applying to the Three Banks for the issuance of banks’ acceptance bills for the purpose of purchasing the Group’s products such as agricultural and construction machineries from the Company or its authorized agents. In return, the Company or its authorized agents shall provide guarantees in the form of an undertaking letter or agreement setting out the legal obligation for the Company’s performance of its repurchase guarantee. During the Reporting Period, the Company utilized in aggregate RMB527,610,000 out of the Trade Credit Line. The provisions of guarantees contemplated under the Trade Credit Agreements constituted discloseable transactions of the Company under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). The Company had made reporting and announcement in accordance with the relevant requirements.

Save as disclosed above, as at 30 June 2010, the Group did not have any other 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 of the Group. 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 the Company’s H shares (the “**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 2010, there was no pledge of any deposits in foreign currency by the Group.

## OTHER EVENTS

### 1. INVESTMENTS

- (1) During the Reporting Period, the Company, YTO (Luoyang) Diesel Engine Company Limited (一拖(洛陽)柴油機有限公司) (“**YLDC**”), a subsidiary of the Company, and Jiangsu Jiangyan Industrial Assets Management Co., Ltd. (江蘇省薑堰市工業資產經營有限公司) (“**Jiangyan Industrial Company**”) jointly contributed RMB100,000,000 to set up YTO (Jiangyan) Engine Machinery Co., Ltd. (一拖(薑堰)動力機械有限公司) (“**Jiangyan Engine**”) in Jiangyan City, Jiangsu Province, the PRC. Among the total, the Company contributed RMB38,000,000, holding 38% equity interest in Jiangyan Engine; YLDC contributed RMB40,000,000, holding 40% equity interest in Jiangyan Engine; and Jiangyan Industrial Company contributed RMB22,000,000, holding 22% equity interest in Jiangyan Engine. Jiangyan Engine is principally engaged in the manufacture and sales of light diesel engines and accessories.
  
- (2) During the Reporting Period, the Company and Shanghai Materials (Group) Corporation (上海物資(集團)總公司) entered into the Agreement on Equity Transaction on 2 April 2010 to acquire 35.85% equity interest in Shanghai Qiangnong (Group) Company Limited (“**Shanghai Qiangnong**”), a company in which the Company holds equity, as held by Shanghai Materials (Group) Corporation (上海物資(集團)總公司) on the Shanghai Equity Exchange at a consideration of RMB21,164,000.

## OTHER EVENTS (CONTINUED)

### 2. DISPOSAL OF SUBSIDIARIES

During the Reporting Period, the Company and YTO entered into an agreement to sell 100% equity interests in YTO (Luoyang) Construction Machinery Sales Company Limited (一拖(洛陽)工程機械銷售有限公司) and YTO (Luoyang) Building & Construction Machinery Company Limited (一拖(洛陽)建工機械有限公司) (collectively, the **“Selling Interests”**) to YTO at a consideration of approximately RMB259,806,000, so as to improve the Group’s operating results and avoid potential competition in the same industry between the Company and subsidiaries of China National Machinery Industry Corporation (中國機械工業集團有限公司) (**“China Machinery”**), the ultimate controller of the Company. As YTO is a connected person of the Company, the above disposal constituted a non-exempt connected transaction of the Company required of independent shareholders’ approval under Chapter 14A of the Listing Rules and a disclosable transaction of the Company under Chapter 14 of the Listing Rules. The Company has complied with the relevant requirements in respect of reporting, announcement and seeking independent shareholders’ approval. The above transaction was approved by the independent shareholders at the Company’s 2010 first extraordinary general meeting held on 16 August 2010 (the **“First EGM”**). Upon completion of the above disposal, the Group will cease to operate the businesses of road rollers, bulldozers, loaders and hydraulic excavators.

### 3. DISPOSAL OF ASSETS

During the Reporting Period, the Group sold certain assets related to the harvesting machinery business to Luoyang Zhongshou Machinery Assembly Company Limited (洛陽中收機械裝備有限公司) (**“Luoyang Machinery”**), a subsidiary of China Machinery, and ceased the operation of its harvesting machinery business.

## **OTHER EVENTS (CONTINUED)**

### **4. THE GROUP'S STAFF, REMUNERATION POLICY AND TRAINING FOR STAFF**

As at 30 June 2010, the Group had in place 11,207 staff members. During the Reporting Period, the total remuneration amounted to RMB180,632,000. 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. During the Reporting Period, the Group adopted the training policy of "trainings as required" through a number of ways. Staff from different levels, with a total of 6,507 person times, had received trainings, thereby improving the working standard of the Group's employees.

## **BUSINESS PROSPECTS**

Benefiting from the favorable factors including the State's policy on subsidy for purchase of agricultural machineries and the "Opinion On Promoting Agricultural Mechanization As Well As Rapid and Healthy Development Of Agricultural Machinery Industry" (《關於促進農業機械化和農機工業又好又快發展的意見》) recently issued by the State Council of the PRC, the agricultural machinery industry is presented with a good development opportunity. The subsidy fund of RMB5.5 billion for purchase of agricultural machineries granted by the State will gradually put in place in the second half of 2010, thereby safeguarding the stable growth of agricultural machinery market and continuously driving the development of the related engine machinery business. However, with the increase in the scale of the subsidy for purchase of agricultural machineries year by year and on an accumulative basis, the scope and focus of the subsidy may be subject to adjustment and change as well. In response, the Group will seize every opportunity with reference to the market change, strengthen the coordination between production and sales, step up the efforts in innovative management and continue to focus on cultivating its core capacity, so as to increase the profitability of the Group and maximize returns to shareholders.

## **DIVIDENDS**

The Group's profit for the six months ended 30 June 2010 and the financial position of the Company and the Group as at 30 June 2010 are set out in the Condensed Consolidated Interim Financial Statements in pages 2 to 10 of this report.

## **DIVIDENDS (CONTINUED)**

With reference to the authorization approved by the shareholders at the 2009 annual general meeting of the Company held on 11 June 2010, the Board recommends payment of an interim cash dividend of RMB0.12 per share for the six months ended 30 June 2010. The dividends for H Shares shareholders of the Company will be paid in Hong Kong dollars. The exchange rate is determined by the average exchange rate announced by the People's Bank of China of the five working days before the declaration of dividends, representing a dividend of HK\$0.13726 per H Share. The said dividend will be distributed on or before 27 October 2010 to shareholders whose names appear on the register of members as at 25 September 2010. In order to determine the holders of H Shares who are entitled to receive the 2010 interim cash dividends, the Company's register of members will be closed from 25 September 2010 to 30 September 2010 (both days inclusive) during which period no transfer of H Shares will be effected. Holders of H Shares who wish to receive the 2010 interim cash dividends must deposit the transfer documents together with the relevant share certificates at the H Shares registrar of the Company, Hong Kong Registrars Limited, at or before 4:00 p.m., on 24 September 2010, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

According to the Enterprise Income Tax Law of the People's Republic of China and the Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China (collectively, the "**Tax Law**") which came into effect in 2008, as from 1 January 2008, any Chinese domestic enterprise which pays dividends to a non-resident enterprise shareholder in respect of the accounting period beginning from 1 January 2008 shall withhold and pay enterprise income tax. As such, the Company, as a Chinese domestic enterprise, is required to withhold for payment of the 10% enterprise income tax from the payment of the 2010 interim dividend to holders of H Shares who are non-resident enterprises (including but not limited to HKSCC Nominees Limited) and whose names are registered on the H Shares register of members of the Company (the "**H Shares Register**") on 25 September 2010, and the Company will distribute the interim dividend to the non-resident enterprises after deducting such tax.

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## **DIVIDENDS (CONTINUED)**

The term “non-resident enterprise(s)” shall have the same meaning as defined under the Tax Law and its relevant rules and regulations when used in this report.

No withholding or payment of enterprise income tax will be made in respect of the 2010 interim dividend payable to any natural person shareholder listed on the H Shares Register on 25 September 2010. Any natural person investor whose H Shares are registered under the name of any non-resident enterprise and who does not wish to have the enterprise income tax to be withheld and paid by the Company, may consider transferring the legal title of the relevant H Shares into his or her name and duly lodge all transfer documents together with the relevant H Share certificates with the H Shares registrar of the Company for registration, at or before 4:00 p.m., on 24 September 2010.

All shareholders and investors should read this paragraph carefully. The Company has no obligation and will not be responsible for confirming the identities of any shareholders and the Company will withhold for payment of the enterprise income tax according to the Tax Law and its relevant rules and regulations.

The Company assumes no liability in respect of and will not deal with any claim arising from any inaccurate determination of the status of shareholders or any dispute over the mechanism of enterprise income tax withholding.

## **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

Save as disclosed below, as at 30 June 2010, none of the Directors, supervisors and chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or 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 or 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 to the Listing Rules and Code on Takeovers and Mergers.

Name and position	Name of subsidiary	Capacity	Registered capital of the subsidiary held	Approximate percentage of the total registered capital of the subsidiary
Li Xibin ( <i>Executive Director</i> )	YTO (Luoyang) Engine Machinery Co., Ltd. (“YEMC”) <sup>Note</sup>	Beneficial Owner	RMB377,960	0.995%

Note: YEMC was established in the PRC with limited liability. Its registered capital is RMB38,000,000. Mr. Li Xibin contributed RMB377,960 to YEMC, representing 0.995% of the total registered capital of YEMC.

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

As at 30 June 2010, 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 on the Stock Exchange (the “ <b>H Shares</b> ”)	<u>401,990,000</u>	<u>47.52</u>
Total share capital	<u><u>845,900,000</u></u>	<u><u>100.00</u></u>

## SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2010, 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	Beneficial owner	443,910,000 <sup>1</sup>	52.48%

### H Shares

Name of shareholder	Nature of interests	Number of Shares	Approximate percentage of the total issued H Shares of the Company	Approximate percentage of the total issued share capital of the Company
DnB NOR Asset Management (Asia) Limited	Investment manager	47,748,000 <sup>1</sup>	11.88%	5.65%
FIL Limited	Investment manager	23,566,000 <sup>1</sup>	5.86%	2.79%

Note: 1. Represent the entities' long positions in the shares of the Company.

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## **SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS**

### ***(CONTINUED)***

Save as disclosed above, there are no other persons (other than the Directors, supervisors or chief executives of the Company) who, as at 30 June 2010, 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.

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 of the Company 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 of the Company 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.3.3 of the Code on Corporate Governance Practices as set out in Appendix 14 to 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 accounts of the Group for the six months ended 30 June 2010. It has also discussed the internal control and financial reporting matters of the Group.

## AUDIT COMMITTEE (*CONTINUED*)

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 2010.

## SIGNIFICANT EVENTS

- (1) In order to establish a financing platform for domestic and overseas capital market which enhances the flexibility for capital utilization, further enhances the influence of the Company's products as well as strengthens and expands the Group's principal businesses, the Board approved the proposal of application for the offering and listing of 150 million Renminbi denominated ordinary shares of the Company (A shares) (the "**Issue of A Shares**") on 28 June 2010, which was approved by the shareholders at the First EGM held on 16 August 2010 but was still subject to the approval of China Securities Regulatory Committee.
- (2) In order to further regulate the Company's corporate governance structure and to comply with the relevant requirements of Issue of A Shares, the Company formulated and/or amended its articles of association, The Rules of Procedures for General Meetings, The Rules of Procedures for the Board Meetings, The Rules of Procedures for the Supervisory Committee, Management Principles on Use of Proceeds and Management Principles on External Guarantee. The above formulations and/or amendments were approved by the shareholders at the First EGM held on 16 August 2010 and will come into effect upon completion of the Issue of A Shares.

## SIGNIFICANT EVENTS (CONTINUED)

- (3) In order to ensure the stability of use of the land leased by the Company and to meet the relevant requirements of the Issue of A Shares, the Company and YTO entered into the Supplemental Land Lease Agreement (the “**Supplemental Agreement**”) on 28 June 2010, which stipulates the pre-emptive rights of the Company in lease renewal and transfer of the land. The Supplemental Agreement has the same effect as the Land Lease Agreement entered into between the Company and YTO on 21 October 2009. The term of the Supplemental Agreement commenced from the signing date to 31 December 2012. The Company had made reporting and announcement pursuant to the relevant requirements under Chapter 14A of the Listing Rules.
- (4) The Board proposed to appoint Mr. Zhang Qiusheng as an independent non-executive Director of the Company on 28 June 2010. On 16 August 2010, the appointment of Mr. Zhang Qiusheng as the independent non-executive Director of the Company was approved at the First EGM of the Company. Mr. Zhang’s term of office commenced from 16 August 2010 to 30 June 2012.

## SIGNIFICANT EVENTS (CONTINUED)

- (5) With an aim to make the best use of finance services as a platform and upon taking into consideration the circumstances such as the revenue from the provision of the financial services by First Tractor Finance to YTO, the resources of First Tractor Finance and the future development of YTO, etc., First Tractor Finance and YTO entered into the Loan Agreement, Bills Discounting Agreement, Bills Acceptance Agreement and Deposit Agreement (collectively, the “**Financial Services Agreements**”) on 28 June 2010 and determined the cap amounts of the loans, bills discounting and bills acceptance. The Financial Services Agreements constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Company had made reporting and announcement in accordance with the relevant requirements. Among them, the financial services under the Loan Agreement, Bills Discounting Agreement and Bills Acceptance Agreement constituted non-exempt continuing connected transactions of the Company required of independent shareholders’ approval under Chapter 14A of the Listing Rules. The Company had obtained the approval from the independent shareholders in respect of the Loan Agreement, Bills Discounting Agreement and Bills Acceptance Agreement at the First EGM held on 16 August 2010.
- (6) On 28 June 2010, the Company and YTO (Luoyang) Harvester Company Limited (一拖(洛陽)收穫機械有限公司) sold certain assets related to the harvesting machinery business to Luoyang Machinery. The above transaction constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. The Company had made reporting and announcement in accordance with the relevant requirements.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is of the view that at all time of the accounting period covered in this interim results report, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to 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 to the Listing Rules (the "Model Code"). Having made specific enquiry to all the Directors and supervisors of the Company, 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  
20 August 2010