

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting", except that the comparative figures of the condensed consolidated cash flow statement have not been presented as the Company has taken advantage of the transitional provisions set out in Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2000, except that certain of the accounting policies have been changed after the adoption of the recently issued SSAP 30 "Business Combinations", which is effective for the accounting periods commencing on or after 1 January 2001.

SSAP 30 prescribes the treatment of business combinations, including how to determine the date of acquisition, the fair value of the assets and liabilities acquired, and the treatment of goodwill (negative goodwill) on acquisition. According to the transitional provisions as set out in SSAP 30, the Group has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Therefore, goodwill arising on acquisitions prior to 1 January 2001 is held in reserves and will be charged to the profit and loss account at the time of disposal of the relevant subsidiaries or jointly-controlled entity, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1 January 2001 is held in reserves and will be credited to the profit and loss account at the time of disposal of the relevant subsidiaries.

Any goodwill arising on acquisitions after 1 January 2001 will be capitalised and amortised over its estimated useful life. Any negative goodwill arising on acquisitions after 1 January 2001 will be presented as a deduction from assets and will be released to the profit and loss account based on an analysis of the circumstances from which the balance resulted.

2. TURNOVER AND SEGMENTAL INFORMATION

The Group is principally engaged in the manufacture and sale of agricultural tractors and related parts and components, construction machinery, road machinery and agricultural harvesting machinery.

An analysis of the Group's turnover and contribution to the profit/(loss) from operating activities is as follows:

Turnover		Contribution to profit/(loss) from operating activities	
For the six months ended 30 June			
2001	2000	2001	2000
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)

	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
By activity:				
Tractors operation	649,643	755,240	(45,372)	(99,321)
Road machinery operation	194,056	198,256	20,021	8,547
Construction machinery operation	39,162	65,721	(26)	2,426
Others	29,309	8,417	(4,018)	(634)
	912,170	1,027,634	(29,395)	(88,982)

The Group's turnover and contribution to profit/(loss) from operating activities for the periods were principally derived in the People's Republic of China (the "PRC").

3. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	For the six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation of fixed assets	41,860	47,160
Provision for impairment of construction in progress	-	8,000

4. TAX

	For the six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
The Company and subsidiaries:		
PRC income tax provided for the period	4,376	3,494
Share of tax attributable to:		
Associates	75	41
Jointly-controlled entity	461	246
Tax charge for the period	4,912	3,781

No provision for Hong Kong profits tax has been made as the Group had no assessable profits earned in or derived from Hong Kong.

The income tax provisions in respect of operations in the PRC have been calculated at the applicable tax rates on the estimated assessable profits for the period based on existing legislation, interpretations and practice in respect thereof.

Profits tax of the subsidiary operating outside the PRC is subject to the rate applicable in its jurisdiction.

There was no material unprovided deferred tax during the period or at the balance sheet date (2000: Nil).

5. TRANSFERS TO RESERVES

No appropriations were made to the statutory surplus reserve and statutory public welfare fund by the Company for the six months ended 30 June 2001. Such appropriations will be made at the year end in accordance with the PRC Company Law and the Company's articles of association.

6. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2001 (2000: Nil).

7. LOSS PER SHARE

The calculation of loss per share is based on the net loss from ordinary activities attributable to shareholders for the period of RMB37,949,000 (2000: RMB97,100,000) and the weighted average of 785,000,000 shares (2000: 785,000,000 shares) in issue during the period.

No diluted loss per share is presented as the Company does not have any dilutive potential ordinary shares.

8. TRADE AND BILLS RECEIVABLES

The Group's average credit terms granted to customers range between 30 to 90 days. The aged analysis of trade and bills receivables as at 30 June 2001 is as follows:

	As at 30 June 2001 (Unaudited) RMB'000	As at 31 December 2000 (Audited) RMB'000
Current to 90 days	279,988	263,683
91 days to 180 days	93,656	105,551
181 days to 365 days	107,030	62,926
One to two years	75,289	107,790
Over two years	158,303	133,582

	714,266	673,532
Less: Provisions for doubtful debts	(222,713)	(186,113)
	491,553	487,419

9. TRADE AND BILLS PAYABLES

The aged analysis of trade and bills payables as at 30 June 2001 is as follows:

	As at 30 June 2001 (Unaudited) RMB'000	As at 31 December 2000 (Audited) RMB'000
Current to 90 days	301,473	263,210
91 days to 180 days	56,334	46,563
181 days to 365 days	26,704	47,686
One to two years	19,918	24,950
Over two years	27,340	20,916
	431,769	403,325

10. RELATED PARTY TRANSACTIONS

- (a) The significant transactions carried out between the Group and China First Tractor Group Company Limited (the "Holding"), inclusive of subsidiaries and associates of Holding, during the period are summarised as follows:

		For the six months ended 30 June	
		2001 (Unaudited) RMB'000	2000 (Unaudited) RMB'000
Sales of raw materials and components	(i)	53,678	69,865
Purchases of raw materials and components	(i)	111,658	106,724
Purchases of utilities	(ii)	29,052	31,825
Fees paid for welfare and support services	(iii)	17,466	21,790
Purchases of transportation services	(iii)	1,718	5,219
Research and development expenses paid	(iv)	1,250	1,450
Fees paid for the use of land	(v)	2,500	2,500
Fees paid for the use of trademark	(vi)	1,250	1,450

Rentals paid in respect of:			
Buildings	(vii)	940	928
Plant and machinery	(vii)	2,747	2,813
Fees paid for import and export agency services	(viii)	699	-

- (b) The significant transactions carried out between First Tractor Qingjiang Tractor Company Limited, a subsidiary of the Company, and its minority shareholder during the period are summarised as follows:

		For the six months ended 30 June	
		2001	2000
	<i>Notes</i>	(Unaudited)	(Unaudited)
		<i>RMB'000</i>	<i>RMB'000</i>
Sales of raw materials and components	(i)	681	3,417
Purchases of raw materials and components	(i)	3,177	13,950
Sales of utilities	(ii)	768	757

- (i) Pursuant to the relevant agreements, the pricing in respect of the raw materials and components is determined by reference to the State price (i.e. mandatory prices set in accordance with the relevant PRC regulations, where applicable) or if there is no applicable State price for any such raw material or component, the market price or the agreed price which is not exceeding the price charged in the immediate preceding year increased by a percentage increase of certain PRC consumer price index, whichever is lower.
- (ii) Pursuant to the relevant agreements, the pricing in respect of utilities is determined by reference to the State price (i.e. mandatory prices set in accordance with the relevant PRC regulations, where applicable) or if there is no applicable State price for any such service, the market price or the agreed price which is not exceeding the price charged in the immediate preceding year increased by a percentage increase of certain PRC consumer price index, whichever is lower.
- (iii) Pursuant to the relevant agreements, the pricing in respect of each of the welfare and support services and transportation services is determined by reference to the State price (i.e. mandatory prices set in accordance with the relevant PRC regulations, where applicable) or if there is no applicable State price for any such services, the market price or the agreed price which is not exceeding the price charged in the immediate preceding year increased by a percentage increase of certain PRC consumer price index, whichever is lower.
- (iv) Pursuant to the relevant agreements, the pricing in respect of routine research and development services per annum is calculated at 0.2% of the Company's net annual turnover.

- (v) Pursuant to the relevant agreements, the annual rental for the use of land is RMB5 million subject to a further land rental adjustment announced by the relevant state land administration authorities.
- (vi) Pursuant to the relevant agreements, the pricing for the use of the trademark per annum is charged at the rate of 0.2% of the Company's net annual turnover.
- (vii) Pursuant to the relevant agreements, the rental of buildings and plant and machinery is charged with reference to the depreciation of relevant assets.
- (viii) Pursuant to the relevant agreements, the pricing of import and export agency services fees is based on the specific items of goods imported and exported, provided that the maximum amount charged shall not exceed 2% of the invoice value of the goods under the agency services.

11. RESERVES

	Share premium <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Reserve fund <i>RMB'000</i>	Enterprise expansion fund <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2001	1,378,840	58,169	58,169	564	320	(54,931)	1,441,131
Net loss for the period	-	-	-	-	-	(37,949)	(37,949)
At 30 June 2001	1,378,840	58,169	58,169	564	320	(92,880)	1,403,182

12. COMMITMENTS

Commitments for capital expenditures at 30 June 2001 were as follows:

	As at 30 June 2001 (Unaudited) <i>RMB'000</i>	As at 31 December 2000 (Audited) <i>RMB'000</i>
Capital commitments in respect of plant and machinery:		
Contracted for	12,317	27,479
Authorised, but not contracted for	18,500	18,500
Capital commitments in respect of investment in a subsidiary in the PRC:		

Authorised, but not contracted for	-	15,695
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13. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date.

14. COMPARATIVE AMOUNTS

Certain comparative amounts in the Group's condensed consolidated profit and loss account of prior period have been reclassified to conform with the current period's presentation as follows:

- (a) Provisions for inventories of RMB29,204,000 have been reclassified from administrative expenses to cost of sales; and
- (b) Provisions for doubtful debts and provisions for impairment in construction in progress of RMB55,739,000 and RMB8,000,000 have been reclassified from administrative expenses to other operating expenses.

Such reclassifications provide a better presentation of the Group's expense items.